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ABSTRACT

This thesis attempts to present a testable, parsimonious, and quantitative theory of hegemonic stability that is able to explain and predict the trade policies of each of the major actors in the international economic system from 1870 to 1986. To accomplish this goal, David Lake's version of hegemonic stability theory was modified by adding a security variable that took national security interests into account. Testing the theory required the historical examination of trade policies and national security interests of the major states in the international economic system. The results of the thesis indicate that national security interests are of vital importance in the formation of a state's foreign trade policy. The ultimate conclusion is that the modified version of hegemonic stability theory improves the predictability of trade policies from 71 percent to 97 percent, thereby validating the modification.

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A MODIFIED THEORY OF HEGEMONIC STABILITY

by

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B.S. United States Air Force Academy, Colorado Springs, Colorado 1992

Submitted to the Department of Political Science and the Faculty
of the Graduate School of the University of Kansas in partial
fulfillment of the requirements for the degree of Master of Arts.

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CHAPTER 1:

INTRODUCTION AND BACKGROUND

The theory of hegemonic stability presently comes in different forms as presented by Charles Kindleberger, Robert Gilpin, Stephen Krasner, Robert Keohane, and David Lake. The theory's basic thesis states that a hegemonic, or dominant, power is a necessary condition for the presence of a liberal international economic order. When the hegemon begins to decline, economic instability and national protectionism result. Based on the composition of the international economic structure, the theory is expected to predict and explain the trade policies of the states within the structure.

Hegemonic stability theory is therefore important mainly because of its stabilizing possibilities. If the theory is correctly specified and if it is used in an appropriate manner, then governments should be able to recognize the general direction of the trade policies of the other states within the structure. Further, it is important as it gives states the ability to determine the future trade policies of other states, regardless of whether or not international economic structure changes. If the structure does change in the future, a correct application of the theory should allow states to predict the general trade policies of others. By understanding the general

direction of present and future trade policies, stability in the international economy could possibly be enhanced as uncertainty is diminished.

The theory of hegemonic stability can be broken down into several different variants.¹ The variants offer different conceptions and explanations concerning the link between the dominant leader in the international system, or the hegemon, and the stability of that system. Most tests of the variants are qualitative in nature and few scholars have attempted to quantitatively test the concept of hegemony. These variants have caused confusion, as different scholars have used similar terms to describe dissimilar ideas.

The inception of the hegemonic stability theory came from Charles Kindleberger (1973). Kindleberger bases his argument on the necessity of a single state to provide the public good of international stability. He claims "that for the world to be stabilized, there has to be a stabilizer, one stabilizer" (1973:305). Kindleberger argues that states are rational and act according to their self interest by maximizing their welfare. This leads to the problem of free riders which results in the necessity of having a single dominant leader to provide the public good of stability by the way of an international economic infrastructure (Kindleberger, 1973:292).

For a state to be able to assume the responsibility of stabilizing the international economy, it must be large enough to have a dominant position within the international economic structure. This position is defined by the dimension of size

¹ The variants described come mainly from mainstream scholars. Hegemonic stability theory has been used by scholars from both the extreme left and the extreme right. These scholars are not taken into account as they are not relevant to the subject at hand.

which is arrived at through a subjective judgement made by Kindleberger (1981:249-50). He posits that small states have no real economic power in an international sense and therefore have no need to exert leadership in the international economy (1981:249). Middle-sized states, which are large enough to cause damage to the system but not large enough to stabilize it, follow their own self interest by protecting themselves to the detriment of the system (1981:250). Only large, dominant states are able to take responsibility and exercise leadership (1981:250).

Kindleberger discusses five functions that the hegemon² must perform if the international economy is to be stabilized (1973:292; 1981:247). First, the hegemon must keep the international market open for distress goods. Second, it must provide counter-cyclical long-term lending. Third, it must maintain a rediscount mechanism in times of crisis. Fourth, it must manage the structure of foreign exchange rates. Finally, the hegemon must maintain coordination of domestic monetary policies. These functions are supposed to provide the public good of an economic infrastructure to the international economy. Kindleberger asserts that these functions can be provided by the hegemon in a responsible fashion and without using coercive measures (1986:842). This provision of public goods by the hegemon has led this variant of hegemonic stability theory to be dubbed 'leadership theory' (Lake, 1993:461-462) and 'benevolent leadership theory' (Snidal, 1985:579). Kindleberger notes, however, that regardless of how the hegemon treats other states in the international system, as time

² The term "hegemon" makes Kindleberger (1986:841) uncomfortable in that it implies characteristics of force, threat, and pressure. I use the term in describing his theory so as to maintain consistency.

goes on the hegemon will become corrupt or will be seen as such (1981:251). At this point, the hegemon will become tired of free riders and feel that the state can no longer afford to carry the burden of such free riders (Kindleberger, 1981:251). Critics of this variant cite subsequent work that shows that a single dominant leader is neither a necessary nor sufficient condition for the establishment of international stability as posited by Kindleberger (Lake, 1993:463).

The second variant of hegemonic stability theory expands on the arguments set forth by Kindleberger. The main scholars who explore this variant are Robert Gilpin (1975, 1977), Stephen D. Krasner (1976), and Robert O. Keohane (1980,1984). Gilpin is the exemplar of this group and I will therefore focus on his work.

With Kindleberger as a base, Gilpin and the other scholars move in a different direction beyond his original starting point. The most important change from Kindleberger's original conception involves the occurrence to be explained. Whereas Kindleberger is interested in explaining international stability, Gilpin is interested in explaining why and how liberal international economic trading regimes emerge and change based on the ability and interest of the hegemon. In making his case, Gilpin uses much of Kindleberger's argument, especially the public goods contention (Gilpin, 1975:39-40).

The second major difference deals with the motives of the hegemon. While Kindleberger expects the hegemon to be a benevolent leader as noted above, Gilpin sees the hegemon to be motivated out of rational self-interest. As opposed to the

'benevolent leadership' described above, this type of hegemonic leadership has been termed 'coercive leadership' (Lake, 1993:467; Snidal, 1985:588). While Gilpin acknowledges that all states gain from a liberal international economic order, he claims that the most dominant states gain a relatively large share of the profits (1975:84). Thus, the United Kingdom and the United States built the liberal international economic regimes at the height of their hegemony because the gains greatly outweighed the costs (1977:22). They were able to do so because, as J. B. Condliffe (1950:219) states, "leadership in establishing the rule of law [lies]...in the hands of the great trading nations". So it was until the costs became greater than the gains. Still, the free trade regime is considered a public good that is available and beneficial to all states.

The final change made was the way an individual state's position within the international economic system was determined. Instead of having the single dimension of size, Gilpin proposed two dimensions of political-military strength and efficiency³ (1977:22). The biggest proponents of a liberal international trading regime are those that are "politically the most powerful and economically the most efficient nations" (Gilpin, 1977:22). Both dimensions are considered necessary for hegemony because hegemony without efficiency leads to imperial types of economies and efficiency without political-military strength cannot make more powerful economies pay the price of maintaining a liberal international trading order (Gilpin, 1977:22).

³ Krasner uses different measures, relative size and level of economic development (Krasner, 1976:318). The importance here is the fact that the number of variables affecting the position of a particular state in the international system has been increased by both scholars.

Critics of this variant concentrate on the idea that free trade is a public good. A pure public good has characteristics of non-excludability and jointness. Non-excludability means that no state can be excluded from enjoying the good despite whether or not that state contributes to the good. Jointness means that one state's use of the good does not minimize or take away from another state's simultaneous use of the good. Sidewalks tend to be the typical example of such a public good. Critics charge that these free trade regimes are actually private, not public, goods and that these regimes supply neither non-excludability nor jointness because the use of the public goods may be restricted or withheld through arrangements of reciprocity and bargaining (Conybeare, 1984; Grunberg, 1990; Snidal, 1985).

Critics also claim that both variants of hegemonic stability theory contain an implicit assumption that collective action in the absence of a hegemon is impossible (Snidal, 1985:59). Kindleberger provides a good example of this in his contention that Japan and West Germany will not be able to overcome private interests to collaborate with the United States in providing collective leadership of the international economy (Kindleberger, 1976:37). This is because "with a duumvirate, a troika, or slightly wider forms of collective responsibility, the buck has no place to stop" (Kindleberger, 1973:299-300).

The final variant is seen in David Lake's theory of hegemonic stability (Lake 1983, 1984, 1988). Lake's thesis subsumes the previous theoretical propositions but uses them to a different purpose. Lake complains that "comparatively little attention

has been devoted to the international sources of foreign economic policy in individual countries" (1983:517).⁴ Lake further argues that focusing on an individual state's trading policy allows more cases to be studied so as to be able to further refine and test the theory of hegemonic stability (1983:518). The importance of such a theory is two-fold. First, the theory is normally limited to the two clear cases of hegemony, that of the United Kingdom in the nineteenth century and of the United States in the twentieth century. With the use of Lake's theory, any state that has an impact on the international political economy can be studied. Second, the theory of hegemonic stability provides a "powerful and parsimonious explanation of foreign economic policy and policy change in individual countries over time" (Lake, 1983:518). His central proposition is that national trade interests, political choices, and trade strategies of states are formed by the restraints and opportunities offered by the composition of the international economic structure and the position of each individual state within it (Lake, 1993:3).

The other important difference in Lake's thesis is his quantitative analysis of the international economic structure. The other scholars who have dealt with hegemonic stability theory have operationalized the characteristics that define hegemonic states. They do not, however, deal with specific delineations between individual states nor specifically how big or preponderant a state has to be to qualify as a hegemon. Lake on the other hand, defines a state's position within the international economic structure

⁴One of the few exceptions is Peter Alexis Gourevitch in "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873-1896," Journal of Interdisciplinary History 8 (Autumn 1977): 281-313.

based on its percentage of world trade and its relative labor productivity. The statistics making up these variables are readily available which makes Lake's version of the theory more testable as different scholars should all be able to reproduce his findings. This key difference allows Lake's theory to be more readily tested than the other variants.

I have found three disagreements with how the theory of hegemonic stability has been tested in the past by the afore mentioned scholars. The first disagreement is that the theory has not been tested adequately. By this I mean that most of the previous work on hegemonic stability theory was too subjective and not reproducible, especially with regards to how scholars assigned a state its position within the international economic structure. The exception, clearly, is the work done by Lake. Even though Lake's quantitative judgment should be as seriously scrutinized as the qualitative judgment of others, it allows his theory a consistency that the other variants lack. One is never sure what characteristics or resources a state must have to qualify as Kindleberger's stabilizer. Similarly, Gilpin's political-military dimension, which is supposed to indicate how much influence a particular state has over the international economy, is not specifically outlined. How much is enough? Because of the reproducibility of Lake's variables, I use them in my analysis.⁵

The second problem I have is that most scholars deal with only a single case over a limited number of years. This theory has not been quantitatively tested beyond

⁵ The validity of using these two variables will be dealt with in Chapter 2.

using a single case study, either British or American hegemony, and has not tested the theory's predictions for the non-hegemonic states in the international economic structure.⁶ Bruce Russett makes the case that reservations should be held concerning the validity of a theory that is derived mostly from one case study, that being U.S. hegemony, and consequently endeavors to explain behavior based on that case. While Lake's variant was commendable for its quantitative differentiation between types of states, it was less so based on its scope. As with the other scholars, Lake did not test the theory against any of the non-hegemonic states that had an influence on the international political economy. Despite his claim that a powerful hegemonic stability theory would be able to explain foreign economic policy in individual states, he concentrated on one country, the United States. In an attempt to avoid such a problem, the scope of my study will extend from British hegemony and decline (1870-1938) to U.S. hegemony and decline (1945-1986). Even though the number of cases remains small, it is better than examining a single case. This theory is clearly constrained by the fact that world trading systems are relatively new. However, I think it is important for the future in that the world will become more integrated, not less. Thus, it is now more important than ever to be able to predict the general policies of other important actors in the international economic system.

Finally, I think that an additional variable is missing, that being the national security interests of the states in the international economic structure. Scholars in the

⁶ This refers to states that have never been hegemons, not states that were at one point hegemons but have since declined.

past have dealt with trade policies of states from a solely economic perspective whereas I think that the economic and national security incentives of individual states are inextricably linked. Kindleberger makes the assumption that when stability is established, a liberal international economy will arise because of the self-interested actions of utility maximizing states (see Lake, 1984). This fails to take into account an extremely important variable in determining how individual states arrive at a given foreign economic policy: trade policy. As Joanne Gowa claims, "Hegemonic stability theory must include security as an argument in the utility functions it assigns to states opening their borders to trade" (1989:308). Keohane further argues that it is "highly desirable...to analyze the linkages between economic and security affairs" (1984:137). By not taking national security interests into account, states may be seen as taking actions that are not maximizing utility. To be a more accurate reflection of reality, the theory should incorporate the national security interests of the individual states in the international system. While this increases the number of variables in the theory, parsimony is not sacrificed. By adding this variable, more accurate predictions should be able to be made concerning the trade policies of individual states.

My goal in this thesis, then, is to present a testable, parsimonious, and quantitative theory of hegemonic stability that is able to explain and predict the trade policies of each of the major actors in the international economic system from 1870 to 1986. This theory is based on the composition of the international economic structure,

the position of each of the major states within it, and each state's national security interests.

Many scholars have expressed concerns about the legitimacy of analogies between nineteenth century British hegemony and twentieth century U.S. hegemony as the international environments of the two periods are vastly different (Gilpin, 1975:151; Lake, 1983:540-542; Keohane, 1984:37; Russett, 1985:211). Despite these differences between the period of British hegemony and that of U.S. hegemony, individual states are predicted to act the same based on the economic and national security incentives that each state faces. These incentives are calculated using the composition of the international economic structure, the position of individual states within the structure and the national security interests of those states. If the revised theory put forth in this thesis is able to accurately predict trade policy across two different international environments, it should have a better chance of being able to predict general trends of future actions by individual states.

For the first period under study, the United Kingdom, the United States, Germany, and France will be examined. For the second period under study, the same states as in the first period plus Japan will be examined starting in 1954. Each of these states was large enough during the given period to be able to have an influential effect on the international economy.

Japan is being intentionally excluded from the first time frame during U.S. hegemony and decline because of its position as a protectorate of the United States.

Immediately following the end of World War II, the United States occupied Japan and essentially ruled its decision making process. Even though Japan's bureaucracy remained intact, it was following specific directions from the United States. This bureaucracy could petition the United States for a change in any given rule but was not guaranteed that a change would necessarily take place.

Thus, Japan was in a state of subservience to the United States. This condition lasted until 1952. Because Japan was not making its own decisions based on the constraints and opportunities of the international system and its own perceived economic and national security incentives, I feel that it is inappropriate to include them for the period from 1945 to 1953. Despite this exclusion, Japan was left in the Figures in Appendix II to allow the reader to follow its progression throughout the post-World War II period.

My examination of the international economic structure specifically excludes the Soviet Union and other communist states. Isabelle Grunberg claims that hegemonic stability theory "fails to acknowledge the implications of the existence of an 'antagonistic trading bloc,' the Eastern bloc" (Grunberg, 1990:436). In this study, the Soviet Union is ignored because of its role as a regional hegemon in which it had a strong influence over a relatively small number of states. Because of this limited impact, it did not exert much influence on the international economy. The fact is that it was the market economies of the world led by the United States "determined the rules of the game of international economic relations" by establishing rules concerning

trade, investment, and monetary relations (Gilpin, 1977:56). The Soviet Union and its satellites had no choice but to follow the established rules if they wanted to participate in the international economy outside of their own bloc.⁷

With the background of hegemonic stability theory established, I will lay out my theoretical modifications. Most of this modification is based on the work done by Lake. The modifications include an expanded scope of study, the addition of a security variable, and changes in the preference schemes of different types of states. Based on this proposal, I will examine British hegemony and decline (1870-1938) and U.S. hegemony and decline (1945-1986).

⁷Besides the relatively small impact of the Soviet Union on the international economy, data concerning its actual size and the extent of its influence on other communist states is neither consistently available nor consistently reliable. This precludes any generalizations beyond the obvious fact that the Soviet Union dominated most of the other communist states in economic terms of trade.

CHAPTER 2

MODIFIED THEORY

In this chapter, I will elaborate my proposal for changes to the theory of hegemonic stability. This will involve a discussion of the level of analysis that I will use, my assumptions in laying out the modified theory, and an explanation of the rationale behind the use of my variables. Finally, I will use the prisoner's dilemma model to describe the incentives of individual states within different types of international economic structures.

A. Level of Analysis

The first issue to be dealt with is the level of analysis at which I will examine the foreign economic policies of individual states. Three analytical approaches have played a major role in theoretical attempts to explain the foreign economic policies of individual states: societal level, state level, and system level (Ikenberry, 1988:1).

Society-level approaches explain foreign economic policy as a result of the struggles for power among domestic social groups (Ikenberry, 1988:7). Each individual policy is the result of the ability of different groups to organize and gain prominence for their interests in the policy process (Ikenberry, 1988:7). From the standpoint of hegemonic stability theory, the use of a society level approach would take away the parsimony of the theory by introducing a large number of variables.

State-level approaches see foreign economic policy as largely constrained by "domestic institutional relationships that have persisted over time" and the ability of the government to accomplish its goals within international and domestic constraints (Ikenberry, 1988:2). As in the society-level approach, the inclusion of domestic sources of explanation hinder the parsimony of the theory.

A system-level approach explains the policies of a given state as a function of the capabilities of that state relative to other states (Ikenberry, 1988:1). Kenneth Waltz holds that systemic explanations delineate relationships between characteristics of the system and the specific actions of behavior (1979:67-73). Thus, theoretical propositions are garnered from the relationships and interactions between states (Keohane, 1986). The most important characteristic of a systemic level theory is that "the internal attributes of actors are given by assumption rather than treated as variables" (Keohane, 1983:508-509). Thus, changes in the behavior of individual states are explained by changes in the attributes of the system, not by changes in the attributes of the individual states.

The theory of hegemonic stability, as modified here, attempts to explain the trade policy of individual states as a result of the composition of the international economic structure, the position of a given state within that structure, and the national security interests of each state.

This theoretical approach does have its limitations. Domestic politics invariably play a role in the foreign economic policies of states. Also, if the domestic

political process is ignored, then the theory is constrained to explaining only recurring phenomena in the international system (Ikenberry, 1988:5). Also, if the policies of a single state are to be explained based on the constraints of the international system, then a theory of foreign policy is required, as a systemic theory alone would be inadequate (Waltz, 1979). Despite these limitations, I feel my use of the systemic level of analysis is valid as I am attempting to explain recurrent international phenomena across several different states.

B. Assumptions

Lake breaks down the strands of hegemonic stability theory literature into different components. He finds three components: strategic trade theory, domestic trade theory, and neorealist hegemony theory (1993:469). Strategic trade theory focuses on market imperfections. Domestic trade theory decomposes the national interest into domestic actors and their specific interests. Neorealist hegemony theory "assumes that states possess multiple objectives, at least one of which is political power or security" (Lake, 1993:469). It is this last category which most accurately describes my approach to the theory. The following assumptions are derived mostly from work by Lake (1993:469) and Keohane (1983:508-510) on neorealism.

The first assumption used is that states are unitary actors and act as individuals within the international system. Individual states are the most important actors in the international system. Thus, I follow a "state-centric" approach.

The second assumption used in this modified theory is that the international system is anarchic, not hierarchic. Thus, states are subject to a system of self-help. With no overarching authority to control states, each state must do what it can to ensure it realizes the best possible outcome.

Third, the ultimate goal of each individual state is survival. All other goals, needs, or desires are sacrificed in the face of this necessity. National security, then, is a consideration which can not be ignored.

The fourth assumption is that these individual states are rational in the sense that they calculate means-ends results and follow policies that will net the greatest return. Despite the many valid criticisms of this assumption¹, it is used because "it is the only decision principle that allows explanations or predictions to be derived from the international system without examining the internal decision processes" (Lake, 1988:23). This assumption allows variations in the behavior of individual states to be attributed to variations in the international system (Keohane, 1983:509).

The final assumption made here is that states seek power and calculate their interests in these terms. At a minimum, states seek enough power to maintain their existence. I agree with Keohane's definition of power which states that power is "both the ability to influence others and resources that can be used to exercise influence" (1983:508). As the ultimate goal of individual states is survival, states "must make the

¹ See, for example, Timothy J. McKeown, "The Limitations of 'Structural' Theories of Commercial Policy," International Organization 40 (Winter 1986):43-64.

preservation or improvement of their power position a principal objective of their foreign policy" (Dougherty and Pfaltzgraff, 1990:94).

C. International Economic Structure

The scholars discussed in Chapter 1 above each had a different conception of how to define the international economic system. As each scholar enters the discourse on hegemonic stability theory, he subsequently revises how the system should be delineated.

Kindleberger defines states in the international economic system on the basis of a single characteristic, size. Based on this dimension, he breaks the international system into components parts of small, medium, and large states (1973:291-292; 1981:249-251). Kindleberger uses his own judgement in categorizing individual states and never really lays out which characteristics distinguish these states from one another.

Krasner defines the international economic structure along two dimensions, focusing on the equality or inequality of both the relative size of states (small and large) and the level of economic development of those states (1976:321-323). There are six hypothetical combinations of potential economic power which thereby produces six different probabilities that an open trading structure will exist (Krasner 1976:323). However, because these probabilities apply only to the openness of the

system, this characterization of the international economic system is of limited usefulness in indicating the interests of individual states (Lake, 1984:145).

Gilpin identifies three types of states within the international economic structure: peripheral states, growth nodes, and hegemonic states (1975). According to Gilpin, like Krasner, the composition of the international economic structure, is defined along two dimensions. These dimensions are political-military power and economic efficiency (1977:22). The first dimension works very well for hegemonic states such as the United Kingdom and the United States during their respective reigns as hegemons. When one attempts to apply it to the other states in the international economic structure, however, its weakness becomes apparent. In the post-World War II era, both Japan and West Germany have had a definite impact on the international economy yet they have very small military capabilities (Lake, 1984:145-6).

Finally, Lake quantifies and refines aspects of Kindleberger and Gilpin's approach. Lake takes the concept of relative size from Kindleberger and relative efficiency from Gilpin. Lake redefines the concept of relative efficiency to be relative labor productivity. I concur and use this characterization of the composition of the international economic structure.

The quantification of the international economic structure and the logic of Lake's variable choices is what sets him apart from the other scholars in the field. As Bruce Russett argues, "The hegemonic stability literature, to be persuasive, demands better measurement than it has enjoyed so far" (1985:213). Quantitative

differentiation between states may not be totally valid and "assigning cutoff points between categories does not wholly substitute for judgment and intuition" (Lake, 1988:33). Its importance however, lies in the fact that it gives the reader a standard of reference for determining the position of an individual state in the international economic structure. Thus, there is no need to guess why a state is considered to be a small free rider or a hegemonic state. The reason is clearly stated and every person should be able to place each state in the same category assuming everyone has valid and reliable statistics.

The concept of relative size breaks the international structure down based on an individual state's percentage of world trade.² Small states have less than five percent of world trade, medium states have between five and fifteen percent of world trade, and large states have at least fifteen percent of world trade (Lake, 1983:526). The concept of relative size is derived from Kindleberger's analysis. Relative size is important in that it plays a role in determining a state's ability and willingness to take on the responsibility for stabilizing the international economy (Lake, 1984:146). Kindleberger argues that "small states have no economic power" and therefore have no responsibility for taking charge of the international system (1981:249-51). Medium-sized states are large enough to affect the system but, like smaller states, are not large enough to stabilize the international economy (1981:249-51). The only

² A state's percentage of world trade is found by adding the imports and exports of an individual state, dividing that amount by the respective totals for the world, and expressing the amount as a percentage. See Appendix I for further explanation.

states which have both the capability and responsibility for taking charge of the international economy are the large states (1973:305).

The largest states in the international system, according to Olson and Zeckhauser, "tend to bear a disproportionate share of the burdens of international organization" because of the higher absolute value that they place on the collective good (1966:278).³ It can therefore be argued that a hegemonic state will place a greater absolute value on a liberal international economy than other states and thereby endeavor to stabilize the international economy (Lake, 1984: 146). Medium-sized states are less likely to organize collective action to provide the public good but this is not impossible. The argument boils down to whether the benefits of providing the public good outweigh the costs of not providing it. Thus, the importance of relative size should be clear as it partially delineates how each state should act according to its national interest.

The second dimension of the international economic structure is relative labor productivity.⁴ It is measured as national output per person-hour compared to the average national output per person-hour for other advanced states (see Appendix I). Thus, a relative productivity rating of 1.0 would be indicative of a productivity exactly equal to the average of the other advanced states productivity. A productivity rating greater than 1.0 would indicate greater than average productivity while a rating less

³ The public good referred to here is that of an economic infrastructure, not of free trade. This argument will be more fully discussed in a later section.

⁴ This thesis uses labor productivity for lack of data that take other factors into consideration.

than 1.0 would indicate a smaller than average productivity (Lake, 1983:542-3; See Appendix I for further explanation).

The dimension of relative labor productivity is also an important factor in predicting an individual state's trade policy. Gilpin asserts that "the more efficient and technologically advanced states tend to benefit relatively more than other states" (1981:138). This efficiency has an important effect on the labor productivity of states which in turn establishes relative gains from trade and areas of comparative advantage (Lake, 1984:148). Thus, a free functioning international market economy tends to converge wealth in the states with relatively higher productivity (Gilpin, 1981:138).

With this assumption, larger and more efficient states will seek an open international market because they gain a disproportionate amount from trade (Lake, 1984:149). This does not mean that these states will want a totally open international economy. Even these states have some weak markets that they invariably want to protect from stiff international competition. Thus, the more productive states want relatively freer trade, not complete free trade.

States which have low productivity do not gain the extensive benefits from a free functioning market as do the more productive states. Thus, these less productive states follow protectionist policies so as to improve their competitive advantage on the international level (Lake, 1984:149). Like the more productive states, the less productive states are not totally pro-protectionist. Rather, they do have some

products in which they have an international comparative advantage and so desire open markets for these goods.

An important point to be emphasized here is that neither type of state desires a totally open or totally protectionist market. Rather, each state pursues relatively liberal or relatively protectionist policies. Neither type of state has either a comparative advantage in all goods or no comparative advantage in any good. Like anything in the real world, there is a mix of both sets of characteristics.

The two dimensions discussed above are used by Lake to define the international economic structure. Based on these dimensions, Lake breaks the international economic structure into four types of states: free riders, spoilers, supporters, and hegemonic leaders (Lake, 1983:522).⁵ Each individual state within the structure has its own preferences for trade policies.⁶

The international economic structure can take different forms based on the types of states within the structure at any given time. If a structure has the presence of a hegemon, then it is a hegemonic structure. In this type of structure, the hegemon is in favor of free trade for all states. Supporters, spoilers, and free riders prefer protectionism at home and free trade for other states. The hegemon is expected to pay the costs of maintaining a liberal international economy (Lake, 1983:523).

⁵ In 1988, Lake further refined the theory to take the size of an individual state's domestic market into account. This increased the number of categories of states to seven (Lake, 1988:30). I do not use this characterization as the data was not readily available for the nineteenth century states under examination.

⁶ These preferences will be outlined in more detail in Section E of this chapter. The preferences given here are the dominant preferences for each type of state.

If there is only one supporter in the structure, with the rest of the states being spoilers or free riders, the structure is referred to as a unilateral supportership. In this case, both the supporter and the other states within the structure tend to favor protectionism at home and free trade abroad. Without constraints from a hegemon or other supporters, the system tends to be unstable as there are no constraints on the single supporter to moderate its protectionist tendencies (Lake, 1983:523).

Given the presence of two or more supporters, and the lack of a hegemon, there exists a bilateral or multilateral supportership. With this type of structure, the supporters still favor protectionism at home and free trade abroad. However, the presence of other supporters constrains this protectionist tendency and cooperation and collective international leadership can result (Lake, 1983:523).

The structures outlined above are the only ones that have been present over the time period that will be studied in this thesis. There has not been a case in which there was neither a hegemonic structure or a unilateral, bilateral, or multilateral supportership. Thus, I deal only with these structures. I will not attempt to deal with the hypothetical situation in which there is neither a hegemon nor supporter(s).

D. The Missing Variable: National Security Interest

Using these two dimensions, Lake predicts well how a state will act based on the composition of the international economic structure if a state is only concerned with maximizing its gains from trade. The maximization of trade gains is not,

however, the main concern of individual states, even though the two very often coincide. Rather, survival is their principal concern.

Thus, Lake's model does not sufficiently take into account this foremost concern. The reality is that the international system is anarchic and it thereby requires individual states to help themselves in any way possible. The states that do not follow this prescription risk their existence. The idea that some 'benevolent' giant will take care of the smaller states is not historically realistic. Any model that is attempting to explain why individual states choose particular policies must take national security interests into account.

In my model, I use national security interests as a third dimension in combination with an individual states relative size and relative labor productivity. To do this, I first lay out the composition of the international structure. Then I examine each individual state with regard to how it is expected to act according to the first two dimensions. Next, I take into account its national security interests to see whether or not the position of the country should remain the same or change.

For example, suppose State A is a Spoiler in a hegemonic international structure (State B is the Hegemon). The theory would predict that State A would follow protectionist measures at home and favor free trade for other states. However, if State A considered it in its vital national security interests to follow the prescriptions of State B, then it will not act as a spoiler but will favor free trade.

Another example might be State A, a supporter in a unilateral supportership. State A is expected to act protectionist at home, thereby making the international system unstable. However, if free trade will provide the most benefits (not necessarily economic), then it will favor free trade over protectionism.

An individual state may have many different reasons concerning national security interests for not acting to maximize its trade gains. For instance, a spoiler may be dependent on the hegemon for national defense and therefore believes it to be in its interests to follow the hegemon's prescriptions. In a unilateral supportership, the supporter may feel that it is in its own security interests to have other states economically tied together. The supporter may therefore pay the costs of maintaining a liberal international economy because the security payoffs are more important than the monetary costs for maintaining the system. Finally, a state may follow the prescriptions of a hegemon or supporter because the strength of that hegemon or supporter is vital to the smaller states national security interests. The smaller state therefore subsumes its own economic preferences in order to increase its security through helping out the hegemon or supporter.

If an individual state is not beholden to another stronger state for its survival, then many times its economic and national security interests coincide. This is the case as the survival of the state depends directly on its own strength or power. One natural way to increase this strength is through the building of the economy. The stronger the state's economy is, the more it can build its defenses, thus enhancing its ability to

survive. Thus, a state responsible for its own survival usually has national security interests commensurate with its economic interests.

In either instance, however, if a state's national security interest, particularly survival, is not involved in particular trade policy choices, then the individual state is not expected to change its policy preferences from a purely economic standpoint. If this is the case, then each individual state will try to gain as much as possible from trade since it is not concerned that such a policy might have a negative impact on its national security. Thus, if security interests are not a factor in choosing a trade policy, then each state will follow its dominant trade preference.

E. Public Goods and the Prisoner's Dilemma

The final theoretical concerns that need to be addressed are public goods and the prisoner's dilemma. Some scholars debate the idea put forth by hegemonic stability theory that the hegemon provides a public good (Snidal, 1985; Conyebear, 1984). Scholars have also debated about whether or not a prisoner's dilemma model gives an adequate formulation of state's preferences or not. I argue that the hegemon does provide the public good of a liberal economic infrastructure. I also argue that a prisoner's dilemma model is useful in providing an insight into the policy preferences of individual states. The level of the game used is simple but it conveys the general idea of trade preferences.

Public goods are characterized by non-excludability and jointness.⁷ In hegemonic stability theory, most scholars argue that either free trade or the international economic infrastructure is a public good. I argue that it is not the former but the latter that qualifies as a public good.

International regimes can be and have been exclusive. For example, the Soviet Union and its satellite states have been excluded from the General Agreement on Tariffs and Trade (GATT).⁸ However, keeping specific states out of international economic regimes is self-defeating as it subverts the purposes of such regimes (Lake, 1988:35). As well, it is even more difficult to exclude states from the benefits derived from international economic stability because such an environment benefits all states (Lake, 1988:35). All states benefit from international stability as trade is generally increased during these times. As uncertainty about the future diminishes, states usually become more open to outside trade, thus allowing all states to benefit, not just those in the regime providing the stability.

Even though the international economic infrastructure is not a pure public good, individual states do have a motivation to free ride on the costs paid by others (Lake, 1988:35). As the number of states that benefit from this public good increases,

⁷ Reiterating the definition given earlier, non-excludability means that no state can be excluded from enjoying the good despite whether or not that state contributes to the good. Jointness means that one state's use of the good does not minimize or take away from another state's simultaneous use of the good.

⁸ It must be acknowledged that this exclusion is a result of choices made by both sides. It was not a unilateral decision on the part of the West.

the optimal contribution for each of these states tends toward zero (Conybeare, 1984:6). Thus, the international economic infrastructure is a quasi-public good because the hegemon largely pays to create and maintain the infrastructure while allowing others to participate at little or no cost. The result is that a prisoner's dilemma emerges for the provision of free trade.

The prisoner's dilemma describes a situation in which the dominant preference⁹ for each player in the game is non-cooperation, no matter what the other individuals are expected to do (Poundstone, 1992:103-105). Thus, each player following its dominant preference results in all players being worse off than if they had cooperated (Poundstone, 1992:103-105).

The classic example of this dilemma was originated by Albert Tucker of the Rand corporation.¹⁰ Two prisoners are charged with breaking the law and are being held in separate locations by the police. Each prisoner has three choices and is told that the other prisoner is being given the same deal. If both prisoners cooperate by staying silent, then both get light sentences. If one prisoner confesses, he or she will be set free while the other receives the heaviest sentence. If both confess, they will each receive moderate sentences. Each prisoner's dominant preference is to confess because of the greater individual reward for confessing (i.e. being set free). Since both prisoners know that the other is thinking the same thing (i.e. confess), neither will keep

⁹ A player has a "dominant preference" when it will follow a particular course of action regardless of what the other player does. This dominant preference arises because of a lack of certain knowledge of what the other player will do.

¹⁰ The following example was drawn from Poundstone, 1992:117-118.

silent as they know the other will get off free and they will be stuck in jail with the maximum sentence. This, of course, leads both to be worse off than if they had both cooperated by staying silent and getting off with a light sentence.

Free trade exhibits characteristics of a prisoner's dilemma, not of a public good. Free trade is not a public good because it exhibits exclusivity and rivalry. First, states can sanction another state that attempts to impose a profitable tariff at the expense of the international community (Conybeare, 1984:8). Also, free trade does not exhibit nonrivalry in terms of consumption because both "benefits of specialization and trade and the consumption of other benefits are subject to rivalry" (Conybeare, 1984:8-9).

Before I lay out the arguments for a particular state's economic preferences, two definitions are in order. First, the term "free trade" is not meant to mean completely free trade as this is most unlikely in the future and has not prevailed in the past. Rather, the term is meant to signify freer trade whereby states reduce protectionist measures by a significant amount.

The term "protection", on the other hand, is used to indicate a move away from freer trade. Protection can take many different forms such as tariffs, quotas, duties, voluntary export restraints (VERs), and non-tariff barriers (NTBs) such as licensing systems and "quality inspections" (see Appendix III for a list of tariff laws enacted from 1870 to 1986).

The prisoner's dilemma is useful in describing free trade. Even though global free trade is optimal, individual states might be tempted to impose advantageous trade

practices which thereby improves their terms of trade (Caves and Jones, 1973:250-264). The result would be that the other states would retaliate, bringing the international economy to a new equilibrium in which all of the states are worse off. This is a classic example of the prisoner's dilemma.

Thus, the prisoner's dilemma can be used to illustrate the trade preferences for each of the different types of states that make up the international economic structure. The trade preferences for each type of state do not vary with the different types of structure.

It should also be recognized that the following discussions of trade preferences deal only with the economic incentives faced by individual states within the international political economy. The outcomes, therefore, are predicted to be accurate if, and only if, national security interests are not a factor. As argued in the first chapter, national security interests have been ignored while the primary focus has remained on economic interests. I intend to try to show that individual states will follow the expected course of action so long as national security interests do not dictate another course of action.

As discussed above, the four types of states in this thesis are Hegemons, Supporters, Spoilers, and Free Riders (See Figure 1). To fit the simplest version of the prisoner's dilemma, the continuum of free trade and protection will be reduced to preferences for more free trade (F) and preferences for more protection (P).¹¹

¹¹ An example of the notation to be used is P/F which indicates that the given state prefers more protection for itself and more free trade for other states. Thus, the first part of the notation refers to the state being examined and the second part refers to all other states. This notation is the

The hegemonic leader, because of its large relative size and higher than average relative productivity, desires to have a liberal international economy. It prefers free trade above all. Even though it does have some uncompetitive industries, the hegemonic leader would rather open them to competition than undermine the stability and credibility of the liberal regime in place. The preferences of the hegemonic leader are ranked as: $F/F > F/P > P/F > P/P$ (Lake, 1984:151-152). Thus, free trade is the dominant preference of the Hegemon.

Supporters want free trade more than do Spoilers and Free Riders but less than the Hegemon. Since Supporters are not strong enough to lead the international economy alone, they do not have the same constraint as the Hegemon in which protection at home might lessen its capability to lead. Its preferences are ranked ordered as: $P/F > F/F > P/P > F/P$ (Lake, 1984:152). Although the Supporter does not have a dominant strategy, what is most important is free trade abroad. This allows it to take advantage of its higher relative productivity. It will only sacrifice protectionism at home in order to maintain export markets abroad (Lake, 1983:523).

Finally, Spoilers and Free Riders are characterized by their low productivity which means that they are most concerned with protecting industries at home. However, they do have a secondary preference of free trade desires because they have some competitive industries (Lake, 1984:151). Their dominant preference,

same as is used by David Lake (1983, 1984, 1988).

nonetheless, is protection at home. Their preferences can therefore be rank ordered as follows: $P/F > P/P > F/F > F/P$.

Four different types of structures emerge over the time period under examination. These structures are hegemony, unilateral supportership, bilateral supportership, and multilateral supportership. The bilateral and multilateral structures will be considered simultaneously as the dynamics of the two structures are the same.

The prisoner's dilemma for a hegemonic structure takes on the form shown in Table 1a and 1b below. As can be seen, the equilibrium for each interaction between the Hegemon and the Supporters, Spoilers, and Free Riders is F/P for the Hegemon and P/F for all other states. Thus, to establish and maintain a liberal international regime, the Hegemon must either impose sanctions or offer rewards to get each state's compliance with universal free trade. The Hegemon must also bear the costs of regulating the international economy. This is referred to as the price of stability (PS) (Lake, 1984:154). Lake determines that for the Hegemon to establish a free trade regime, the gains from universal free trade minus the cost of stability must be more than the cost of getting all of the other states to comply (1984:154). This results in the inequality:

$$(F/F - F/P)_{HL} - PS \geq \Sigma(P/F)_{SUP,SP,FR} \text{ (Equation 1).}$$

Equation 1 works fine if one considers states to be driven solely by economic incentives. However, assuming that survival is the foremost goal of all states, then security must be included in the calculation. What would change would be the preferences of the other states. If it is in the national security interest of one or more

TABLE 1a: HEGEMON vs. SUPPORTERS

		HEGEMON	
		F	P
SUPPORTERS	F	3, 4	1, 2
	P	4, 3	1, 2

TABLE 1b: HEGEMON vs. SPOILERS AND FREE RIDERS

		HEGEMON	
		F	P
SPOILERS & FREE RIDERS	F	2, 4	1, 2
	P	4, 3	3, 1

Values = 4 3 2 1
 Hegemon = F/F > F/P > P/F > P/P
 Supporters = P/F > F/F > P/P > F/P
 Spoilers/Free Riders = P/F > P/P > F/F > F/P

of these states to comply with the Hegemons desires, then their preferences would change accordingly to come in line with the Hegemon. Supporters' preferences would be: $F/F > P/F > P/P > F/P$. Spoilers and Free Riders preferences would be rank ordered such that: $F/F > P/F > P/P > F/P$. In this case, those states that felt it was in their national security interests to change positions would do so, causing them to come into a free trade equilibrium. For these states, the inequality stated above (Equation 1) no longer applies until they no longer think that national security interests are at stake.

Those states that did not feel this way would clearly not change. They would still have to be paid off by the Hegemon to pursue free trade and the above inequality (Equation 1) would still be applicable. The result would be that the Hegemon would have fewer states which it needed to pay off to maintain a free trade system.

From the perspective of the Hegemon, national security interests also play a vital role. The Hegemon is already predisposed to free trade. If its security interests dictate that free trade is essential to its continued survival, then it would not care about the costs. Rather, it would incur more costs than it could recoup to maintain the free trade system. On the other hand, if the Hegemon felt it was in its vital security interest not to pursue free trade, then it would not.

Thus, for all actors involved, security interests must be considered. The world does not turn on money alone but rather on survival instincts. No state can be expected to follow rational economic incentives if it has negative implications for its security situation. Of course, if maintaining national security interests provide positive economic benefits for an individual state, such as those gained by joining an alliance and thereby lowering defense costs, then so much the better for that state.

The next international economic structure to be considered is that of unilateral supportership. The characterization of its prisoner's dilemma can be seen in Table 2 below. Thus, the equilibrium for each interaction between the Supporter and the Spoilers and Free Riders is P/P for all of the states. Two different situations dictate the potential for free trade in this type of international economic structure. The first

situation is one in which the single Supporter had moved up from the position of a Spoiler.¹² The second situation is one in which a Hegemon has declined in position to become a Supporter.¹³

TABLE 2: SUPPORTER vs SPOILERS AND FREE RIDERS

		SUPPORTER	
		F	P
SPOILERS &	F	2, 3	1, 4
FREE RIDERS	P	4, 1	3, 2

Values = 4 3 2 1
 Supporters = P/F > F/F > P/P > F/P
 Spoilers/Free Riders = P/F > P/P > F/F > F/P

In the first situation, even though the Supporter has a moderate to strong interest in free trade, no other state is in a position to constrain its protectionism. Thus, the dominant preference of protection for the Spoilers and Free Riders forces the Supporter to accept its second worst payoff of P/P (Lake, 1984:156). With all of the states in the international economic structure protecting industries at home, trade barriers will be built and any attempt to move back toward an open international economy will be limited in scope because of the Supporters' inability to unilaterally lead the economy (Lake, 1984:158).

¹² The United States in the 1930's is an example of this phenomenon and will be explored in a later section.

¹³ The United States during the 1950's is an example and will also be explored in a later section.

This does not mean that a single Supporter can not create a liberal international economic regime. It does mean that the creation of such a regime is highly unlikely. The creation is made more difficult because of the costs the single Supporter must pay to negotiate (NC) such a regime into existence (Lake, 1984:157). Thus, the single Supporter's potential benefits from establishing a free trade regime minus the costs of negotiating the regime and minus the cost of maintaining international economic stability must be greater than or equal to the costs of paying off the Spoilers and Free Riders to comply with the rules of the regime. In this situation, the inequality to be overcome by the Supporter to create the liberal international regime can be summarized as follow:

$$(F/F - P/P)_{SUP} - NC - PS \geq \Sigma(P/P - F/F)_{SP,FR} \text{ (Equation 2).}^{14}$$

Because the Supporter is neither as strong nor as influential as a Hegemon, the costs to the Supporter may be more than it is willing to pay or more than it is capable of achieving.

The second situation that may arise is one in which the Hegemon declines to the position of being a single Supporter. In this case, the influence of the Supporter may still be large despite the fact that the resources at its disposal are those of a Supporter. Also, its ability to maintain the liberal economic regime that it had set up during its hegemony is further enhanced by the fact that it had already paid the costs of negotiating the regime (NC). Thus, the inequality for this situation is :

$$(F/F - P/P)_{SUP} - PS \geq \Sigma(P/P - F/F)_{SP,FR} \text{ (Equation 3).}$$

¹⁴ This equation was derived from a similar one used by Lake (1984:157).

Because the Supporter in this case does not have to pay NC, its chances for maintaining the liberal international economic regime are greatly enhanced compared to the first situation.

As before, the two situations described above deal only with economic incentives. If for any reason any of the individual states in the international economic structure feel that it is in their national security interests to go against their economic preferences, they will do so. For example, the single Supporter may feel that it has no choice but to bear any costs required to maintain the liberal international economic regime. Also, the Spoilers and Free Riders may feel it to be necessary to help the Supporter for some reason related to their security. Thus, in the absence of any security interests, the individual states are expected to follow their economic incentives. Only when security issues arise do individual states pay the economic price for their security.

The final type of international structure is a bilateral or multilateral supportership.¹⁵ The prisoner's dilemma characterization for this type of structure can be seen in Tables 3a and 3b. This type of structure is a classic example of the prisoner's dilemma in that if both Supporters attempt to maximize their gains (P/F), they will achieve a suboptimal outcome of (P/P) while if they all cooperate, they would benefit more from (F/F). Because of their high relative productivity, the cost of not cooperating (F/F - P/P) is most likely to be much higher than the benefits that each

¹⁵ The dynamics of both types of structure are the same. Therefore, I will refer only to a case of multilateral supportership in which I mean any structure with two or more Supporters.

would receive from protecting its weak industries (P/F - F/F) (Lake, 1984:155). Thus, the Supporters have a high incentive to collaborate through the creation or maintenance of liberal economic regimes.

TABLE 3a: SUPPORTER vs. SUPPORTER

		SUPPORTER	
		F	P
SUPPORTER	F	3, 3	1, 4
	P	4, 1	2, 2

TABLE 3b: SUPPORTER vs. SPOILERS AND FREE RIDERS

		SUPPORTER	
		F	P
SPOILER & FREE RIDERS	F	2, 3	1, 4
	P	4, 1	3, 2

Values = 4 3 2 1
 Supporters = P/F > F/F > P/P > F/P
 Spoilers/Free Riders = P/F > P/P > F/F > F/P

The Supporters must, however, still pay off the Spoilers and Free Riders to ensure that they comply with the liberal economic regime. The Supporters must also pay to keep the international economy stable. As in the unilateral Supporter structure, there are two situations which may occur.

The first situation is one in which one of the Supporters was recently a Hegemon. In this case, the previous Hegemon (now a Supporter), has already paid the cost of negotiating the regime (NC). This lessens the cost of maintaining the present liberal economic regime and makes collaboration easier between the individual Supporters. The resulting inequality can be summarized as follows:

$$\Sigma (F/F - P/P)_{SUP} - PS \geq \Sigma (P/P - F/F)_{SP, FR} \text{ (Equation 4).}$$

The more Supporters that are present in the structure during a given time period, the less it will cost to maintain the liberal economic regime.

The second situation that could evolve is one in which the Supporters in the structure do not have the work of a previous Hegemon on which to build. In this case, the Supporters must pay the price of negotiating an liberal international economic regime into existence as well as paying off the Spoilers and Free Riders to ensure their compliance with the rules of the regime. The resulting inequality to be solved by the Supporters is:

$$\Sigma (F/F - P/P)_{SUP} - NC - PS \geq \Sigma (P/P - F/F)_{SP, FR} \text{ (Equation 5).}$$

As this raises the price of free trade, this situation is more difficult to bring about than the first situation. By no means does this imply that cooperation is impossible. It only implies that cooperation is less likely in the latter situation than it is in the former.

The only caveat to be made is that the incentive to cheat still exists and therefore makes the universal trade equilibrium, if accomplished, unstable. Especially as the number of Supporters within the structure grows, it becomes harder to detect and punish cheating by any individual Supporter and each Supporter will not find it in

its interest to continue a policy of free trade if it feels that any of the other Supporters are cheating on the regime (Lake, 1984:156).

Finally, as with the other two structures, the above structure outlines economic incentives only. If the Supporters think that their national security interests are linked to an international free trade regime, then they will pay the costs to create or maintain such a regime, even if others are cheating on it. The same can be said for Spoilers and Free Riders supporting liberal economic regimes if their security interests are at stake. If no vital security interests are involved, the individual states are expected to follow the economic incentives presented by the international economic structure.

One final caveat must be addressed regarding the use of prisoner's dilemmas to characterize the trade preferences of individual states. Susan Strange (1987:553), in "The Persistent Myth of Lost Hegemony," criticizes this usage because they

deal with situations in which the 'players' are engaged in one game at a time; in which the players are limited to two, or some quite small number; and in which the game is played *in vacuo* and the players are motivated by precise and singular goals. These situations are the very opposite of the reality of international political economy, in which the players...are engaged simultaneously in a whole series of bargaining games...and are motivated by a complex and shifting tapestry of interacting, sometimes contradictory, motivations.

Strange is correct in her criticism of the usage in technical terms. Yes, game theory has made tremendous strides in which it is able to take enormous complexity into account. Drafting such a model here, however, is not the purpose of this thesis. Rather, the purpose of its simplified use is to gain a general idea of the economic incentives facing individual states in a given international economic structure. By

keeping it simple, its elegance is retained. If using such a simplified version of the prisoner's dilemma provides an accurate representation of what occurs in the international political economy, then the theory becomes that much stronger. If it does not, however, then the prisoner's dilemma characterizations should be restructured to take more of the complexities into account. I will now try to determine if the simplified version is adequate to the task.

CHAPTER 3:

U. K. CASE STUDY

The international economic structure between 1870 and 1939 can be split into three different time periods based on the number and type of states existing within each structure: 1870-1912 as a hegemonic structure, 1913-1929 as a bilateral supportership, and 1930-1939 as a unilateral supportership.¹ Figures indicating the progression of each state through these time periods can be found in Appendix II.

According to the modified model, from 1870 until 1912, the United Kingdom is predicted to be a Hegemon, the United States is expected to be a Supporter with France and Germany being Spoilers (see Figure 1 and 2, Appendix II). The international economic structure, then, is a hegemonic structure. Thus, the United Kingdom, as the Hegemon in the structure, is expected to attempt to create and maintain a liberal international economic regime. The other states within the structure, without taking into account national security interests, are expected to free ride, assuming that the Hegemon will pay the price of keeping export markets abroad open. Each state's foreign trade policy, however, may change based on its national security considerations.

¹ Despite the common judgement that the United Kingdom was a Hegemon throughout the entire nineteenth century, the data necessary for determining each state's percentage of world trade and relative productivity before 1870 were not available.

The second time frame lasts from 1913 until 1929. During this period, the United Kingdom declined to the position of a Supporter while the other states in the structure retained their same position as during the first period (see Figure 3 and 4, Appendix II). According to the modified model, this period of bilateral supportership is predicted to be stable and have a good probability that the liberal economic regime will be maintained. Because the United Kingdom should have paid the price of creating the regime in the previous time frame, the costs that the Supporters would have to pay to maintain the regime are lower than if they had to negotiate the regime from the ground up. The potential for cheating does still exist, however, which might result in international instability and greater protectionism than would be expected of a bilateral supportership. The other states within the international economic structure, as Spoilers, are predicted to free ride on the efforts of the Supporters attempting to maintain the regime. Again, national security interests may play a role in determining an individual state's trade policy and adversity to cheating on the part of others.

The third period extends from 1930 until 1939. During this time frame, the United Kingdom declined in relative labor productivity to the point that it is classified as a Spoiler by the modified model. All the other states in the study maintained their respective positions. Thus, the international economic structure was one of unilateral supportership in which the United States was the sole Supporter and the other states were all Spoilers (see Figure 5, Appendix II). In this situation, the United States was not previously a Hegemon and therefore did not have an established regime and

leadership position to work off of as the United Kingdom did. Thus, for the United States to achieve a more liberal international economy, it would have to pay the costs of both negotiating and then maintaining the regime. Because of its position as a single Supporter, however, the modified model expects a low probability that the United States would be able to pay these costs. Each of the other states, as a Spoiler, is expected to free ride on the efforts of the Supporter and thereby lead to a situation in which protectionism is increased. Finally, national security interests must be examined as an integral part of the foreign trade policy decisions of the individual states within the international economic structure. If any of the Spoilers feel that freer trade is in their national security interests, then that state is expected to ignore its economic incentives and act in favor of free trade. Similarly, if the United States does not feel that free trade is in its national security interests, then it will not attempt to negotiate a free trade regime.

It is recognized that both the United Kingdom and France were major colonial powers from 1870 until World War II. As such, these two states had different relations with their colonies than they had with the rest of the world. In most cases, this meant that there was more free trade between the state and its colonies than between the state and other independent states. In this thesis, however, the United Kingdom and France are treated as singular states. Thus, the policies of the United Kingdom toward the Commonwealth are treated in the same manner as the policies

toward other independent states with the recognition that the colonies are generally given more favorable treatment.

A. 1870-1912: HEGEMONY

During this time frame, according to the modified model, the United Kingdom was a Hegemon, the United States was a Supporter, and France and Germany were Spoilers (see Table 4). This hegemonic international economic structure is predicted to result in the United Kingdom paying for the creation and maintenance of a liberal international economic regime. Without taking national security interests into account, the other states under examination are predicted to free ride by protecting uncompetitive national industries at home while taking advantage of the liberal regime established by the Hegemon to expand export markets abroad. National security interests did play a role in the fact that they complemented the economic incentives of each state.

By 1870, the United Kingdom had established itself as the undisputed Hegemon within the international economic structure (see Figures 1, 2 and 6, Appendix II). As the most industrialized state and the state with the largest empire, the United Kingdom had all of the economic incentives expected of a Hegemon. With its vast output, need for raw materials, and "belief that freer trade...would bring direct commercial gain," the United Kingdom's primary preference was for free trade in every

Table 4The International Economic Structure, 1870, 1890

<u>Year = 1870</u>	<u>U.K.</u>	<u>U.S.A.</u>	<u>France</u>	<u>Germany</u>
Proportion of World Trade	24	8.8	10.8	9.7
Relative Productivity	1.46	1.28	0.77	0.78
Predicted International Position	Hegemon	Supporter	Spoiler	Spoiler
<u>Year = 1890</u>	<u>U.K.</u>	<u>U.S.A.</u>	<u>France</u>	<u>Germany</u>
Proportion of World Trade	18.5	9.7	10	10.9
Relative Productivity	1.43	1.43	0.78	0.84
Predicted International Position	Hegemon	Supporter	Spoiler	Spoiler

state (Mathias, 1983:266). The national security interests of the United Kingdom, which centered on defending its homeland and Empire, were in accordance with its economic incentives.

Its economic preferences led the United Kingdom to establish a free trade system in which it paid the price of maintaining an open system by reducing its tariffs almost to nil and generally keeping a totally free market for the imports of the world. By the end of the century, the United Kingdom had tariffs on only fifteen items with

free entrance for all other goods while inspection procedures were kept to a minimum (Condcliffe, 1950:216).

Thus, the United Kingdom was being used as a dumping ground for the surpluses of the other states in the world (Condcliffe, 1950:216). When this fact is considered against the protectionist measures of the other states within the system, it becomes clear that the United Kingdom was paying a high price for the maintenance of the free trade regime. Table 5 gives the imports and exports of tangible goods by the United Kingdom and consequently shows how the United Kingdom was paying for the free trade regime (Mathias, 1983:279). The United Kingdom actually had decreasing exports in goods from 1875 until they rebounded at the end of the century. At the same time, imports continued to climb at a steady pace. Making up for this deficit in the balance of trade was the gains from 'invisible exports', or services, such as shipping, banking, and administration, especially from its colonies (Mathias, 1983:282). The result was that the United Kingdom was able to maintain its position while losing its competitive advantage to other states, especially the United States, which were running large trade surpluses, rapidly industrializing, and slowly taking over their own home markets through protectionist measures, thereby lessening the exports of the United Kingdom (Mathias, 1983:289).

The United Kingdom, even though in decline compared to other states in the international economic structure, still had the economic incentives of a Hegemon. The prosperity of the United Kingdom had not diminished in a tangible sense and it still

Table 5Imports and Exports of the United Kingdom, 1871-1913

<u>Year (5 year average)</u>	<u>Net Imports</u>	<u>Net Exports</u>
1871-1875	302	239.5
1876-1880	325.9	201.4
1881-1885	336.6	232.3
1886-1890	327.4	236.3
1890-1895	357.1	226.8
1896-1900	413.3	252.7
1901-1905	471.5	296.9
1906-1910	539.6	397.5
1911-1913	623.2	488.9

Note: All figures are in British pounds and in current prices.

held a vast empire that spanned the entire globe. The United Kingdom depended on the imports of the world just as much as it depended on the ability to export its goods and capital. Thus, it was not in its economic interests to abandon free trade to any degree.

The national security interests of the United Kingdom lay primarily in preserving order and maintaining defense on its homeland and throughout its Empire

(French, 1990:174, 187). The United Kingdom had the largest navy in the world so as to maintain peace and the international trading order. With its navy, the United Kingdom was not dependent on any other state for the defense of its homeland or its Empire. It was the independence of the United Kingdom that allowed it to defend itself and its Empire while at the same time balancing the power in Europe and maintaining peace on the continent until World War I.

The United Kingdom did enter three alliances during this time frame with France, Russia, and Japan (Seymour, 1918:162). The first alliance was the Entente of 1904 between the United Kingdom and France. The second was the Convention of 1907 between the United Kingdom and Russia. The third was the Triple Entente of 1907 between the United Kingdom, France, Russia, and Japan. These alliances, however, were aimed at maintaining the balance of power by creating a bloc against Germany and the Austro-Hungarian Empire, thereby lessening the chances of war which would interrupt world trade. Thus, the national security interests and economic incentives of the United Kingdom were linked.

Because the United Kingdom was not dependent on other states for its defense, it did not have to worry about strengthening the economies of other states. Rather, the United Kingdom could concentrate on improving its own economy through maintaining the flow of world trade as this was the way that it thought it could best maintain its national security. Thus, the United Kingdom followed its economic

incentives of maintaining free trade at home and in the markets of its Empire as predicted by the modified model for both economic and national security reasons.

The United States, in its position as a Supporter, is predicted by the modified model to free ride on the efforts of the Hegemon by protecting its industry at home while expanding its exports markets abroad (see Figures 1, 2, and 7, Appendix II). The national security incentives of the United States dove-tailed with its economic incentives which resulted in a foreign trade policy commensurate with the predictions of the modified model.

The attitude of the United States during this period was that "every import is an insult" (Mathias, 1983:289). The United States was industrializing at a rapid rate and its productivity was catching up to the United Kingdom. At the same time, it wanted to acquire every possible protection for those industries which were based in the United States or that were immature and needed to catch up with the rest of the world. Because the United Kingdom was paying the price by maintaining the liberal economic regime, the United States felt itself under no pressure to reciprocate. Since the United Kingdom did not require reciprocity, the United States continued to follow its economic incentives throughout the period.

By 1870, the average tariff level against imported manufactures was forty-seven percent (Mathias, 1983:289-290). In 1890, the McKinley Act was passed "to increase production here, diversify our productive enterprises, enlarge the field, and increase the demand for American workers" (McKinley, quoted in Lake, 1988:99).

The Act was intended to place duties on all goods that could be produced in the United States and to admit freely those goods that the United States could not produce at all or not produce in sufficient quantity so as to satisfy the demand for them (Lake, 1988:100). Four years later, in 1894, the Wilson-Gorman Act rescinded the reciprocity provision of the McKinley Tariff (Terrill, 1973:198) while adding wool and lumber to the duty-free list (Lake, 1988:103).

The protectionist trend continued in 1897 with the passage of the Dingley Act and in 1909 in the form of the Payne-Aldrich Act. These two tariff acts were not solely protectionist in nature as the previous measures had been. In 1897, the United States passed the United Kingdom in terms of labor productivity, providing further incentives for the United States to expand its export markets. Because of this increase in productivity, the percentage of medium-size manufacturers dependent on exports more than doubled from 23.6 percent in 1889 to 52.9 percent in 1899 and subsequently rose to 63.6 percent in 1909 (Lake, 1988:76). Thus, these acts sought to exploit the trade policies of other states so as to allow protectionism at home while furthering exports abroad. The foreign trade policies of the United States were therefore consistent with the modified model.

The Dingley Act reduced the number of goods on the free list from 50 percent to 45.1 percent, and raised the duty on all imports from 20.5 percent to 26.2 percent (Lake, 1988:125). The reciprocity provisions that had been removed in the Wilson-Gorman Act were also brought back into effect (Isaacs, 1948:209). These

provisions allowed the President of the United States to enter into commercial treaties with any state and to lower the duties on any item by 20 percent if the item was an indigenous product of the treaty state but not of the United States (Lake, 1988:127). The results were that the United States was able to negotiate treaties that got the minimum rates on goods from Germany and France (Lake, 1988:129). Even though these treaties did not eliminate discrimination, they went a long way toward minimizing it to the greatest extent possible. Thus, the United States was able to gain access to some of the largest markets of Europe while they were in the midst of increasing protection.

The Payne-Aldrich Act, though the most liberal Act up to this point in time, still maintained protectionist barriers. Tariffs on imports were reduced from 47.6 percent to 41.0 percent and the number of items on the free list was increased from 45.1 percent to 51.3 percent (Lake, 1988:133). Thus, although the Act had the lowest tariffs in the period, they were only slightly less than they had been at their lowest point.

Despite these protectionist limitations, the Act did have some liberal provisions. The most important was the maximum-minimum schedules which gave a minimum tariff to those states that did not discriminate against the United States and a maximum tariff to those states that did discriminate (Isaacs, 1948:213). Treaties were again negotiated on the basis of this Act, the results being that the United States received the minimum tariff for all of its goods entering Germany and on most of its

goods entering France (Lake, 1988:136). Thus, like the Dingley Act, not all discriminatory practices against the United States were eliminated but major reductions were acquired.

During this period, the United States was isolationist in a military sense from the rest of the 'civilized world', most pointedly, Europe. Most of the immigrants to the United States came because they did not want have anything to do with the Old World. The new Americans looked upon foreign states, especially European states, with suspicion (McCormick, 1992:11). The only good aspect of these foreign states was that they were potential markets for exports. The United States was easily able to maintain this policy of foreign non-interference mainly because of geography. Separated by two oceans from the rest of the civilized world, the United States did not have to worry about foreign invaders pouring across their borders. Especially as the United States grew stronger in the latter half of the nineteenth century and after the defeat of Mexico in 1847, the United States had no military threat from the entire Western hemisphere.

No entangling alliances were made with other states that required the United States to intervene militarily in case the other was attacked. In fact no treaties of alliance were made between the treaty signed with France in 1778 and the Declaration of the United Nations in 1942 while 1,024 treaties were concluded between 1947 and 1960 (McCormick, 1992:15). Agreements were made but they concerned mostly

trade relations and did not involve politically "entangling alliances" (McCormick, 1992:15).

Thus, the United States had no national security interests that conflicted with their economic incentives. Rather, the economic incentives were fortified by national security interests. The United States felt that it had to be as strong and as independent from the rest of the world as possible. To be secure, the United States had to be strong enough to defend itself against anyone. Also, it had to be strong enough to do it alone. No other state was to be trusted. Therefore, the primary trade preference of the United States of protecting industries at home while expanding export markets abroad was exactly what was needed to satisfy its national security interests.

France was a Spoiler during this time frame (see Figure 1, 2, and 8, Appendix II). According to the modified model, France is expected to free ride on the liberal economic regime being maintained and paid for by the United Kingdom. France lived up to the expectations of the modified model by implementing protectionist policies throughout the period. Like the United States, France was free to raise her tariffs without losing the market of the United Kingdom as the United Kingdom did not require reciprocal trade policies in return for access to its market. The national security interests of France required a strong economy as it was dependent upon itself for defense. Thus, as the rest of the world was becoming more protectionist, France had both economic and national security reasons for instituting protectionist measures

as keeping its import duties low did not guarantee that foreign markets, except for its colonies, would be open for its exports (Smith, 1980:197).

These policies began in 1881 when a general tariff law was passed which raised duties by twenty-four percent and set higher duties on agricultural products that could not be lowered in any new tariff treaties (Isaacs, 1948:336). Protectionist policies continued to abound in France as duties were increased on such products as livestock and grain in 1885 and 1887 (Smith, 1980:201). These tariffs were also raised at a very high rate, including a 150 percent raise on calves and an 800 percent raise on wheat (Smith, 1980:201).

In 1892, these individual tariffs were reaffirmed and consolidated in the Meline Tariff (Smith, 1980:209-213). The Meline Tariff signaled an overall trend toward protectionism and away from free trade as it did increase the duties on many, but not all, products that were imported (Smith, 1980:209-210).

One of the main sectors that was affected by the Meline Tariff and the Tariff of 1910 was agriculture (Smith, 1980:213). Grain imports fell from 365 million francs in the 1880s to 159 million francs by the first decade of the twentieth century. Wine imports fell from 392 million francs in the 1880s to 125 million francs by the early 1900s. Livestock imports, which peaked at 187 million francs in 1883, declined to 26 million francs in 1900.

For the Meline Tariff to achieve these results, a maximum and a minimum set of rates had been established, manufacturing rates had been increased, and agricultural

duties had been increased by twenty-five percent (Isaacs, 1948:337). The minimum tariff rate could be given to any state that gave France similarly good treatment (Ashley, 1904:344). This minimum rate was also applied to the French colonies as a general rule, even though French exports to these same possessions were duty-free (Ashley, 1904:356). The Tariff of 1910 was established on the same basis as the Meline Tariff and increased protection on 500 of the 654 classifications of imported goods, with an emphasis on the protection of agriculture (Isaacs, 1948:337). These declines in imports are an indication of the success of these protectionist measures.

Trade treaties were signed, however, with Russia in 1893, Switzerland in 1895 and 1905, and Italy in 1898 (Smith, 1980:209). These states were accorded most-favored-nation status and subsequently were given tariff reductions on such items as petroleum, silk cloth and yarn, milk, cheese, wine, machinery (Smith, 1980:209).

At the beginning of this period, France had just come off a loss to Germany in the Franco-German War. In the Treaty of Frankfurt, which concluded the war, France had to give up Alsace-Lorraine and pay five billion francs in war reparations (Seymour, 1918:9). Throughout this period, then, France's national security interests concerned rebuilding her economy and military force so as to be able to face any future conflict.

France was not dependent upon the United Kingdom for its national security and therefore did not feel any need to follow the economic desires of the United

Kingdom of opening its borders to free trade. France's main ally during this time period was Russia, with whom France formed the Dual Alliance in 1891 and a trade treaty in 1893 (Seymour, 1918:3). The Dual Alliance was an attempt to balance Germany's power and maintain peace on the continent (Seymour, 1918:53). The Alliance did just that in 1875 when there was a war scare between Germany and France as France increased its army by 150,000 men (Knapton, 1971:463).

Thus, France was acting as predicted by the economic incentives and national security interests of the modified model. Protectionist measures were used to insulate markets at home while exports abroad were expanded. France, therefore, was free riding on the efforts of the United Kingdom by allowing the United Kingdom to pay the costs of regime maintenance. The international economic structure provided these incentives as the United Kingdom maintained its open markets to absorb the surplus of others while not requiring these other states to reciprocate in any fashion. Further, France's national security incentives did not induce it to deviate from its economic incentives.

During this time frame, Germany was in the position of a Spoiler (see Figure 1, 2, and 9, Appendix II). According to the modified model, Germany is therefore predicted to have a foreign trade policy that involved free riding on the efforts of the Hegemon. German national security interests, involving an expanding interest in becoming a world power, increased the importance of having a strong economy. On both economic and security grounds, then, Germany is expected to have had

protectionist policies at home while exploiting the liberal economic regime set up by the United Kingdom through expanding their exports as much as possible.

The German state was brought together in 1871 under Bismarck. During this time frame then, Germany was beginning to develop its industrial and commercial activities essential for growth (Seymour, 1918:3). As Germany grew and became more self-aware, it began to expand its horizons. With the rapid growth of its mercantile marine, new markets were opened and colonies were dreamed of, leading Germany to concern itself with the matters of the world (Seymour, 1918:3).

Germany, then, acted as predicted by the modified model because of the incentives it faced. As a relatively inefficient state, Germany felt that it was necessary to protect its industries at home from foreign competition. This was especially true as Germany's immediate neighbors, Russia and Austria-Hungary, had higher import duties than it did (Henderson, 1975:213). Only a few states, including the United Kingdom, had free trade policies and Germany therefore felt that it had to raise duties so as to keep its home industries competitive. Since the United Kingdom did keep its markets almost completely open, Germany was able to expand its exports while protecting its home markets.

The protectionist effort began with the passage of a new tariff law in 1879 following tariff increases in several other states (Condliffe, 1950:232). This new tariff placed import duties on many industrial products such as pig-iron, steel goods, and textiles (Henderson, 1975:213-220). Overall, the tariff covered forty-three categories

of commodities and maintained the system of specific duties which in effect placed duties on items based on given quantities (Ashley, 1904:61). Even though most raw materials remained on the free list, this measure vastly increased the amount of protection on the previously relatively free German economy.

These tariffs, however, were not seen as keeping Germany competitive as other states had recently begun raising their tariff rates. France was a key example of this protectionist trend. France had passed a new general tariff in 1881 which raised import duties by twenty-four percent. Germany felt that it had to respond and they therefore subsequently raised their own import duties in 1885 and 1887 (Henderson, 1975:221).

The final major tariff law to be enacted during this time frame was the Tariff of 1902. In this predominantly protectionist act, the tariff became more specialized and detailed so as to discriminate more closely between given products. Classifications were increased from the 394 of the 1879 tariff to 946 in the 1902 tariff (Isaacs, 1948:347). The results were increases on both agricultural and manufactured products, with the emphasis being on agricultural products (Ashley, 1904:107-108). This emphasis was mainly centered on the non-negotiability of the agricultural tariffs. The minimum rates on wheat, rye, oats, and barley were fixed so as to eliminate the possibility of their being negotiated down in a treaty with another state (Isaacs, 1948:347).

Different treaties also worked to the advantage of Germany. Treaties were established with China, Japan, Korea, Siam, and Rumania in which those states reduced or promised not to increase their duties while Germany did not have any such reciprocal obligation (Ashley, 1904:80-81). With the larger states, such as Austria-Hungary, Belgium, the Netherlands, France, Sweden, and Norway, Germany maintained its most-favored-nation status. This was very important to Germany as all of the reductions in duties acquired by France from other states during this period were transferred to Germany by way of the most-favored-nation clause without Germany having to do anything in return (Ashley, 1904:81). Finally, Germany was able to maintain the same favorable conditions with the United Kingdom and its possessions throughout this time frame that it had received in the treaty of 1865 (Ashley, 1904:81).

Germany's national security interests complemented its economic incentives. The Franco-German War, which brought Germany into being as a state, foretold the capability and willingness of Germany to enter a war if it deemed it necessary. As noted earlier, Germany began to concern itself with the affairs of the world during this time frame. Based on its defeat of France, Germany was confident in its ability to wage a war. Germany entered into the Triple Alliance with Italy and Austria in 1882, guaranteeing the support of the latter two states (Seymour, 1918:2). Germany, however, was the preponderant state and therefore ruled the Alliance.

As Germany continued to grow, it expanded its military, especially its navy. In 1898, the first German naval plan was developed and then subsequently upgraded in 1900 as the first scheme was deemed inadequate to attain the desired capability of being able to deal with any opponent on the high seas (Seymour, 1918:152). Germany was therefore militarily independent and could follow its own economic incentives without concern for its national security.

Thus, Germany followed the economic incentives of a Spoiler as predicted by the modified model. Protecting at home while free riding on the efforts of the Hegemon, Germany acted as expected of a Spoiler. Germany did not pay any of the costs of maintaining stability in the international economy, but still benefitted from that stability by being able to protect its home markets while expanding its exports abroad. Throughout the period then, Germany grew and became confident in its ability to deal with any opponent in a military fashion. Because of this confidence, Germany did not feel compelled to follow the desire of the United Kingdom to promote free trade. Germany's concern was with improving its own economy, not those of other states. Thus, Germany's national security interests allowed it to follow its economic incentives as a Spoiler.

Overall during this time frame, each state under examination acted as expected based its economic as well as national security incentives. The United Kingdom followed its economic incentives of free trade based on its position as a Hegemon in the international economy and its dependence on world trade. As the United Kingdom

had the strongest navy in the world during this period, it was not dependent on any other state for its defense. Thus, it was able to follow its economic incentives without sacrificing its national security interests.

The United States followed its economic incentives as a Supporter as it free rode on the efforts of the United Kingdom to maintain free trade. During this time frame, the United States was continuing to strengthen its economy through industrialization. Because the United States was geographically isolated from the rest of the world and had no enemies in its hemisphere, its national security interests lay in improving its economy. The United States could therefore follow its economic incentives of protecting its industry at home while exploiting freer markets abroad, especially that of the United Kingdom.

Both France and Germany, as Spoilers, followed their economic incentives of free riding on the efforts of the United Kingdom by protecting industry at home. France introduced protectionist measures because of its relatively weaker position in the international economy and because of the protectionist measures that other states were implementing. Germany, a newly formed state at the beginning of this period, was protectionist as it began to develop and strengthen its economy.

Both states faced national security interests that coincided with their economic incentives in that neither was dependent on the United Kingdom or any other state for defense. If either state had been dependent on the United Kingdom, then its economic incentives would probably have changed to a position of free trade. Even though both

states were involved in alliances with other states, neither was solely dependent on those states for defense and therefore did not have reason to deviate from their economic incentives. Thus, both France and Germany were concerned with strengthening their own economies so as to improve their national security.

B. 1913-1929: BILATERAL SUPPORTERSHIP

During this time frame, the United Kingdom declined in its percentage of world trade to assume the position of a Supporter. The United States, France, and Germany, however, retained their previous positions, thereby changing the international economic structure from hegemony to a bilateral supportership (see Table 6).

Table 6

The International Economic Structure, 1929

	<u>U.K.</u>	<u>U.S.A.</u>	<u>France</u>	<u>Germany</u>
Proportion of World Trade	13.3	13.9	6.4	9.3
Relative Productivity	1.16	1.68	0.9	0.82
Predicted International Position	Supporter	Supporter	Spoiler	Spoiler

The modified model would predict a system that has a moderate probability of maintaining the liberal international economic regime that was previously established and maintained. The United Kingdom and the United States should have been the key

actors in adopting and sustaining more liberal trade policies and both are expected to constrain protectionism due to the desire to maintain export markets. The Spoilers, based on their economic incentives, are still expected to free ride in the system while allowing the Supporters to bear the costs. The national security interests of each of the states were in accordance with the economic incentives of each state and subsequently strengthened these incentives. Thus, protectionism is expected to increase to a higher level than during the period of hegemony, but the overall international economy is expected to maintain a liberal nature.

The beginning of this period began with the commencement of World War I in 1914. At the beginning of the war, the gold standard was dropped by the United Kingdom and the rest of the large industrialized states. The war lasted until the end of 1918. At this point, the world economy began to rebound from its war footing. The international economy was definitely unstable, however, in both an economic and a security sense. For four years "the production and distribution of goods, and the mechanism of trade and exchange, had been governed in the belligerent countries primarily by the exigencies of war" (Arndt, 1944:9-10). Other factors contributing to global instability included the change in territorial boundaries and changes in population trends (Arndt, 1944:10). These economic factors as well as the fact that tensions still existed on the European continent were to be of enormous consequence throughout the time period as each state attempted to recover and readjust to a peace time world.

The United Kingdom became more protectionist during this time period, as expected with its change from being a Hegemon to being a Supporter, although it also worked at reintroducing stability in the international economy (see Figure 3, 4, and 6, Appendix II). The United Kingdom worked toward this end because of its dependence on world trade to maintain its balance of payments and because of national security interests which dictated a rebuilding of its economy and Empire.² Because the United Kingdom was a Hegemon during the previous period, it had already paid the costs of negotiating and maintaining a liberal economic regime. World War I, however, caused the collapse of this regime. Thus, to reestablish the regime after the war was over would require more resources than if the system had stayed intact. Thus, the probability of success is expected to be lower than if the war had not taken place.

The first sign of this new protectionism came during the war in 1915. The first import duties were imposed by the Chancellor of the Exchequer, McKenna, and were therefore called the McKenna duties. These duties added 33 1/3 percent *ad valorem* on certain luxury items such as cars, time pieces, and musical instruments (Capie, 1983:41). The duties were supposedly emergency wartime measures only, but because of the lack of a complementary excise tax, the duties were clearly protectionist in nature (Capie, 1983:41). Duties were also placed on a variety of

² As noted in the previous section, even though the United Kingdom had a negative trade balance in tangible goods, it still maintained a positive overall trade balance due to its export of services such as banking and shipping. Thus, the United Kingdom was still heavily reliant on world trade.

chemicals in the Dyestuffs Act of 1920 and the Safeguarding of Industries Act of 1921 place a 33 1/3 percent *ad valorem* duty on 6500 products considered to be of strategic importance such as coal, iron, steel, engineering, ship building, and electrical trades (Isaacs, 1948:353). The latter act was renewed and extended for five more years in 1926 to protect key industries and prevent dumping (Capie, 1983:40-41). Overall however, these duties only covered one-tenth of one percent of imports (Condliffe, 1950:480).

This protection was mitigated, however, by the exports credits plan of 1919. This plan was designed to further expand exports to states with unfavorable exchange rates (Capie, 1983:40). Also, in the Finance Act of 1930, some of the duties and all of the anti-dumping provisions of the second Safeguarding Act were repealed (Capie, 1983:41). By the end of the period in 1930, eighty-five percent of goods still entered the United Kingdom duty free (Capie, 1983:44).

Thus, the majority of the protectionist measures dealt with industries of key importance to the security of the state. The duties during this period, however, "were all rather insignificant in terms of the volume of imports they affected" (Capie, 1983:41). Even though the United Kingdom began to implement protectionist measures during this time frame, the dominant trend was still in the direction of free trade as the protectionist measures did not have a large impact on imports.

As a Supporter, this was to be expected based on the modified model. The United Kingdom was slightly more protectionist than during its hegemonic reign but

was still pursuing free trade. It was also the United Kingdom that was continuing to take the initiative in attempting to restructure the world economy. Because of their long advocacy of free trade in the nineteenth century, the United Kingdom had caused their economic livelihood to become dependent on world trade (Condcliffe, 1950:477). Thus, the United Kingdom was in a position that gave it the incentive to pick up where it had left off before World War I.

Even though it was not in as strong a position in the world economy as it had been, the United Kingdom attempted to rebuild world trade through a return of European production (Condcliffe, 1950:477) and the reestablishment of the gold standard. The desire for stability in the world economy led most states to return to the gold standard. When the United Kingdom returned to the gold standard in April, 1925, its colonies followed suit and by 1928, all important trading states with the exception of Spain, Portugal, and Japan had returned to the stability of the gold standard (Condcliffe, 1950:505). The system, however, was based on pre-World War I conditions, especially the pre-war value of the pound, and resulted in the exports of the United Kingdom not being able to compete effectively for foreign markets, causing its economy to decline even further (Condcliffe, 1950:506).

After World War I and the defeat of Germany, the United Kingdom desired to return to the status quo in which it was a leader of the international economy and independent militarily. With much of Europe, including Russia and especially Germany, devastated by the war, the United Kingdom did not perceive any remaining

military threats to its security. Its homeland and therefore its industries were still intact while those of the other states on the continent had to be rebuilt.

In 1919, the United Kingdom adopted the Ten Year Rule which stated that no great war on the European continent was expected for ten years and therefore no expenditure was necessary to prepare for such a war until that ten years was up (French, 1990:181). Thus, the army of the United Kingdom was slashed in 1920 to about ten percent of its war strength (French, 1990:181). With the strength of its colonial armies, the United Kingdom was content that its colonies were relatively safe and if need be, those same colonies could be brought to bear to defend the homeland as had been done in World War I.

Even though the United Kingdom began a rearmament program shortly after 1920 because of its recognition that tensions still existed on the European continent, its main interest remained in preserving order and maintaining the defense of its homeland and holdings, with continental defense interest coming in a distant last place (French, 1990:181-187). The main national security interests of the United Kingdom could be achieved by rebuilding its economy to its previous position of strength, by returning stability to the international economy, and by reestablishing world trade. If the international economy was put back on its feet, then peace would prevail as World War I was considered to be the 'war to end all wars'. Thus, the national security interests of the United Kingdom dictated that it should follow its economic incentives

of protecting key industries at home as long as it did not interfere with its attempt to reestablish a liberal economic regime.

Overall during this time frame, the United Kingdom implemented protectionist policies only if they did not hinder exports and the reestablishment of the liberal economic regime. The national security interests of the United Kingdom accorded with its economic incentives, as the rebuilding of its economy was seen as the best way to preserve its security. Despite the ultimate failure of the United Kingdom to rebuild Europe, the fact that it was attempting to rebuild the world economy shows that it was playing the role expected of a Supporter.

The United States, like the United Kingdom, was attempting to stabilize the international economy based on its position as a Supporter (see Figure 3, 4, and 7, Appendix II). The United States continued to maintain and implement protectionist measures at home but it did so in a more limited fashion so as to be able to expand exports as much as possible. The United States faced these economic incentives for much the same reason that the United Kingdom did, mainly dependence on exports. The national security interests of the United States coincided with its economic incentives as it desired to be militarily independent and isolated from the rest of the world.

With the strengthening of its economy, the United States was becoming more dependent on exports, especially to the United Kingdom. At the beginning of this time frame in 1913, the British market accounted for over twenty-four percent of the

exports from the United States (Lake, 1988:152). The United States realized that the reduction of tariffs at home would be compensated by the significant rewards that would result from exports.

Thus, the attitude had changed markedly since the previous period and was appropriately summed up by President Wilson when he said "All trade is two-sided. You can't sell everything and buy nothing. You can't establish any commercial relationships that aren't two-sided" (in Lake, 1988:157). This attitude, however, was guarded as the newly formed protectionist measures in the United Kingdom caused uncertainty in the United States over the strength of its future commitment to free trade (Lake, 1988:166).

The first major tariff reform accomplished by the United States was the Underwood Tariff Act of 1913. This Act added 100 goods on the free list, decreased tariff rates on 958 categories of goods, and increased tariff rates on 86 categories of goods (Isaacs, 1948:217). The results were that tariffs on dutiable items dropped from 41 percent to 26.8 percent and the average rate of duty on the total amount of imports declined from 20 percent to 8.8 percent (Lake, 1988:154). The other part of the Act redefined tariffs to be "competitive". This new type of tariff would not eliminate or reduce tariffs enough to hurt industries at home but would be designed to allow enough imports to provide competition for American producers (Lake, 1988:154). This Act lasted nominally nine years but was basically inoperative throughout World War I, thereby not allowing the Act to accomplish its goals (Isaacs,

1948:221). Even though this Act did not accomplish its goals, it signified a major shift in United States policy toward free trade in which protection was sacrificed in order to gain more export markets. Thus, the United States was following the economic incentives expected of a Supporter by the modified model.

As noted earlier, the United States was concerned over the commitment of the United Kingdom to free trade. This concern was justified with the McKenna duties of 1915, the Dyestuffs Act of 1921, and the Safeguarding Act of 1921. The result was that the United States immediately responded with the Emergency Tariff Act of 1921 which increased duties on agricultural products and textiles and attempted to prevent dumping of European goods on the market of the United States (Isaacs, 1948:226).

This Act lasted until the implementation of the Fordney-McCumber Tariff of 1922. Protectionist measures were maintained from the previous act on agricultural products and on chemical and metallurgical industries (Isaacs, 1948:226). Another provision of the Act allowed the President of the United States to raise or decrease any duty by up to fifty percent to equalize the costs of production (Isaacs, 1948:226). Finally, the Act gave the President of the United States the authority to retaliate against any state that discriminated unfairly against goods from the United States and adopted the unconditional form of the Most-Favored-Nation (MFN) principle (Lake, 1988:169). The results of this Act were that the level of duty on the total amount of imports increased from 8.8 percent to 13.9 percent and the average tariff on dutiable goods increased from 26.8 to 38.2 percent (Lake, 1988:167). From Table 7 it is clear

that while this Act increased protectionism, it was, as expected by the modified model, still less than the level of protectionism of the previous period. During the life of this Act, until 1930, the United States used the second provision allowing the President to change tariffs thirty-seven times with only five instances accounting for a decrease in the tariff rate (Isaacs, 1948:227). This increase in protectionism served only to add further instability to an already very unstable international economy.

Table 7

Level of Duty by Tariff Act, 1909-1922

<u>Tariff Act</u>	<u>Level of Duty on Total Imports</u>	<u>Level of Duty on Dutiable Imports</u>
Payne-Aldrich Act of 1909	20%	41%
Underwood Tariff Act of 1913	8.8%	26.8%
Fordney-McCumber Tariff of 1922	13.9%	38.2%

The Fordney-McCumber Tariff lasted until 1930. Despite the fact that tariff rates were increased from 1922 until 1930, the United States, because of its position as a Supporter, was still constrained by its economic incentives that drove it to expand its exports as much as possible, even if by so doing protectionism at home is decreased.

The United States, to promote a more active trade policy, used the MFN clause to conclude treaties with other states. Treaties were concluded twenty-two

times between 1923 and 1929 but the United States was not able to conclude treaties with either the United Kingdom or France (Lake, 1988:171-2).

The national security interests of the United States again fell in line with its proposed economic incentives. The United States did not want to join the war in the first place, but rather wanted to keep building its economy instead. As the United States became stronger and assumed the role of a Supporter, it became more dependent on world trade and therefore wanted to further free trade.

World War I was considered to be the war that would end all wars. After World War I, the United States again withdrew totally from the rest of the world in a military sense. As noted during the previous time period, the United States did not engage in any entangling alliances until 1942. The sole concern of the United States was to return to the business of building their economy. The two oceanic barriers still meant that the United States was safe from any massive attack from Europe or the Soviet Union and if it was in any way threatened, it was confident in its ability to rise to the challenge and repel any invaders or threats.

Thus, the United States acted as expected according to the economic incentives of a Supporter under the modified model. Protectionist measures decreased from the previous period as the United States sought to help stabilize the international economy by lowering its tariff rates and pursuing a more liberal trade policy. Although the United States ultimately failed to achieve its goals during this time frame, the fact that it attempted to liberalize trade and return stability to the international

economy shows that the United States was acting as expected of a Supporter according to the economic incentives of the modified model.

Because the United States felt that a return to military isolationism was in its national security interests, it was left free to pursue its economic incentives of building its economy through returning stability to the international economy. Thus, the United States acted as expected of a Supporter according to the modified model because of economic and national security incentives.

According to the modified model, France remained a Spoiler during this time frame (see Figure 3, 4, and 8, Appendix II). Therefore, France was expected to free ride on the efforts of the United Kingdom and the United States to reestablish and maintain a liberal international economic regime by protecting its home industries while taking advantage of open markets abroad. These economic incentives were strengthened by its national security interests as it had to rely mostly on itself for defense.

After World War I, industry in France had been severely damaged and heavy losses in manpower had been sustained. France's economy was in shambles. In order to rebuild its economy, France felt that it was necessary to protect its industries while it rebuilt them. In its position as a Spoiler, France was able to free ride on the efforts of the United Kingdom and the United States to reestablish international stability. France consequently used this stability to rebuild its economy.

France, therefore, acted according to these predictions. Immediately prior to World War I, France had the highest and most complicated tariff level in all of Europe (Isaacs, 1948:368). Following the end of World War I in 1918, France still had a minimum-maximum tariff schedule in effect. During this year, a decree was issued in which the minimum tariff rate was raised between five percent and twenty percent and the maximum tariff rate was raised between ten percent and forty percent, covering 411 items, mostly manufactured goods (Isaacs, 1948:368).

Protectionist measures continued in 1919 as a new tariff system of coefficients was employed. This system involved multiplying the rates in the tariff of 1910 by a coefficient to determine a new rate. Between 1919 and 1922, the new coefficient was used to change 3,294 tariffs, including a coefficient of 8 on metals and 6 on chemicals (Isaacs, 1948:369).³ Finally, in 1926, the existing tariff rates were all increased by another sixty percent (Isaacs, 1948:369).

French national security interests went hand in hand with its economic incentives. Despite the fact that France signed many treaties of alliance during this time frame after World War I, it was still dependent upon itself for defense. Thus, its foremost national security interest was in strengthening its own economy as it was essentially dependent on itself. France, therefore, had no security incentive to deviate from its economic incentives.

³ These coefficients, respectively, corresponded to 700% and 500% raises in the tariff rate.

The formation of the League of Nations, which was written into the Treaty of Versailles, gave France a promise of military assistance from the other members, especially the United States and United Kingdom, in case of an attack by Germany (Knapton, 1971:479). When the United States refused to ratify the treaty, France lost the defense commitment of both the United States and the United Kingdom (Knapton, 1971:479-480). When this defense commitment fell through, France made subsequent alliances with Belgium, Czechoslovakia, Rumania, and Yugoslavia against any future German invasion (Knapton, 1971:486).

In 1928 France also participated, with fifteen other powers, in the signing of the Pact of Paris in which each state agreed to forgo the use of war as an instrument of national policy (Tenbrock, 1979:263). In theory, this was a great idea, yet the term "war" was not defined, every state reserved the right of self-defense, and France maintained that it was still bound by previous alliance commitments even if it called for the use of armed force (Knapton, 1971:488).

The security of France, then, was in no way guaranteed by its alliances. It did not have an alliance with the stronger states in the world, namely the United States and the United Kingdom, and the treaty outlawing war was weak and fraught with loopholes. France, therefore, was still dependent mostly on itself for defense against any attack. This encouraged France to follow its economic incentives.

Thus, it is clear that France was playing the role of a Spoiler by following its economic incentives according to the modified model. France continually raised its

tariff rates throughout the period without reducing them once, mainly because of its desire to rebuild its industry and its relatively weak position in the international economy. France was therefore not working at all on improving the stability of the international economic structure or on helping to reestablish the liberal economic regime that had fallen apart during World War I. Rather, it was working on exploiting the Supporters by implementing protectionist measures at home as would be expected of a Spoiler according to the modified model.

The national security interests of France also encouraged it to follow its economic incentives. Despite its numerous alliance treaties, France was still largely dependent on itself for defense against future threats, especially Germany. It was therefore very important for France to strengthen its economy in what it considered to be the most efficient fashion as it had to rely on self-help.

Germany, like France, was a Spoiler during this period according to the modified model (see Figure 3, 4, and 9, Appendix II). Thus, like France, the modified model predicts that Germany would attempt to free ride on the efforts of the United Kingdom and the United States by protecting industry at home while exploiting freer markets abroad. This free riding was in line with its national security interests as it had to rely solely on itself for defense, especially after World War I.

Germany continued its protectionist trend from the previous period with the Tariff of 1902 being in effect until the beginning of World War I. During World War

I, Germany was almost completely cut off from the world market and therefore did not have much trade to speak of except for trade with its allies.

The Versailles Peace Treaty, which concluded the war, forced three key provisions upon Germany (Condliffe, 1950:483; Isaacs, 1948:373-374). First, since Germany was reliant on foreign agricultural and manufactured goods until about 1924, its duties on these products had been eliminated. Second, Germany was not free to alter its new tariff structure for the first five years after the end of the war. Finally, Germany was required to extend MFN status to the United States and its war-time allies without gaining any reciprocal treatment.

Besides the Versailles Treaty, Germany suffered other losses after World War I. Germany lost its colonies and part of its territories which amounted over five billion marks worth of imports to Germany each year (Isaacs, 1948:376). On top of paying war reparations, Germany had to surrender 5000 locomotives, 150,000 freight cars, 58,000 agricultural machines, 140,000 cows, 120,000 sheep, all of its merchant ships of more than 1600 tons, half of its merchant ships between 1000 and 1600 tons, and one quarter of its fishing boats (Isaacs, 1948:376-377). Thus, Germany felt that it had no choice but to institute whatever protectionist measures it could so as to rebuild its economy and recoup from its losses.

Throughout this five year period when Germany was not allowed to change its tariff structure, it still found ways to be protectionist commensurate with its position as a Spoiler. The main measure that Germany took to maintain some control of its

economy was to establish a licensing system which made every transaction in manufactured goods a separate one, thereby limiting the amount of goods that could enter the state (Isaacs, 1948:374). In 1922, when Germany once again became independent of Allied control, it raised rates fifty percent on imports as a starter, and then in September of the same year, raised rates on any goods not previously increased by fifty percent to one hundred percent (Isaacs, 1948:374). By 1925, the protectionist sentiment had reignited Germany. The first general revision of the Tariff of 1902 was completed during this time. The revision, which raised duties to a level that was much higher than in 1913, increased tariffs on more than half of the 946 categories of imported goods (Isaacs, 1948:374).

Thus, Germany acted in a protectionist fashion throughout the time period. No move toward improving international stability or toward free trade was taken. Despite the restrictions on Germany until 1922, it still found ways to act protectionist and after 1925, it definitely had made a return to protectionism.

Germany's economic incentives during this time frame accorded with its national security interests. As a defeated state, part of its economic sovereignty was taken away in that it could not change its tariff structure for five years and had to give favorable trade preferences to its former enemies. Thus, it did not have any friends after the war besides its defeated allies. The states that remained powers such as the United States, France, and the United Kingdom tore Germany down with the

Versailles Peace Treaty rather than rebuilding it into an ally as was done after World War II.

Thus, Germany had no one to rely on except itself. Its national security interests lay in rebuilding its war torn economy so as to gain the where-with-all to defend itself against any future enemies. While the states that it had to give MFN status to protected their economies, it was in Germany's national security interests to protect its economy as much as the circumstances would allow. When Germany was finally free to pursue its own policies, the rest of the world had already embarked on strongly protectionist paths. Thus, its national security interests complemented its economic incentives according to the modified model and it acted as was predicted of a Spoiler.

The fact that the United States failed to bring about stability in the form of a more liberal economic regime with the United Kingdom points to the insufficient resources of both the United States and the United Kingdom. Together, they were not able to pay the costs required to return stability to the international economy. Both states resorted to protectionist measures which further undermined the stability of the system because present returns became more valuable as future returns became more unpredictable (Lake, 1988:187). Just when both states needed to work harder together, it became more difficult. The lack of cooperation manifested itself in the depression at the end of the time frame.

Both the United Kingdom and the United States did, however, act as expected by the modified model in that they attempted to return stability to the international economy. The United Kingdom as well as the United States had the economic incentives to attempt this return to stability as both were dependent on world trade because of the relative strengths of their economy. The pair also had national security incentives to add strength to their economic incentives. The United Kingdom desired to maintain order and the defense of its homeland and Empire which would be facilitated by a stronger economy. The United States was returned to military isolation at the end of World War I and desired only to strengthen its economy through increasing world trade.

France and Germany also acted as predicted of Spoilers according to the modified model. France and Germany clearly instituted protectionist policies during this time frame with no attempt to help return stability to the international economy. They did so for different reasons, however.

France implemented more protectionist measures during this time frame because of its weaker position in the international economy and its desire to rebuild after the end of the war. Also, French national security was guaranteed by no other great power and therefore left it to defend itself against future aggression, especially from Germany. Thus, it had to build up its economy by what it considered the most effective measures to adequately defend itself. Thus, economic and security incentives played an important role in guiding the foreign trade policy of France.

Germany implemented more protectionist measures throughout this period as a result of the Treaty of Versailles. The Treaty left Germany in a weakened economic and military state. While other states were free to implement whatever policy they chose, Germany did not have that freedom until 1925, Germany had to give MFN status to the other great powers without any reciprocal treatment, and it had to pay immense reparations. Militarily, Germany was stripped of much of its military hardware, as would be expected. Also, Germany was left with no allies except those from the war who were also made weak. Germany was therefore on its own in terms of defense which meant that it had to attempt to build up its economy in the best manner possible. Thus, Germany had both economic and security incentives to implement protectionist measures as expected of a Spoiler.

C. 1930-1939: UNILATERAL SUPPORTERSHIP

During this final period before the commencement of World War II, the United Kingdom continued its decline to join the ranks of France and Germany as a Spoiler, leaving the United States as the sole Supporter (see Table 8). According to the modified model, the economic incentives of the individual states are predicted to lead to a unilateral supportership in which protectionism runs rampant as the sole Supporter does not have the resources to unilaterally lead the international economy towards a free trade regime. Combined with this shortfall, the Spoilers are expected to

free ride and allow the single Supporter to attempt to pay the costs of opening the international economy to whatever extent possible.

Table 8

The International Economic Structure, 1938

	<u>U.K.</u>	<u>U.S.A.</u>	<u>France</u>	<u>Germany</u>
Proportion of World Trade	14	11.3	5.2	9
Relative Productivity	0.92	1.6	0.82	0.9
Predicted International Position	Spoiler	Supporter	Spoiler	Spoiler

During this period, the United Kingdom declined in labor productivity relative to the other advanced states in the international economic structure to the point that it assumed the position of a Spoiler according to the modified model (see Figure 5 and 6, Appendix II). Based on this position, the United Kingdom is expected to implement protectionist policies at home while imposing all of the costs of liberalizing the international economy on the United States as the sole Supporter.

This period was fraught with instability as the world entered an economic depression. By 1931, the weakness of the gold standard had become apparent and with large demands being made for gold on London, the United Kingdom had no choice but to abandon the gold standard on September 20th of that same year (Condliffe, 1950:515). The instability of the international economic system, the

economic decline of the United Kingdom, and its national security incentives led the United Kingdom to abandon its free trade stance in favor of protectionism.

The United Kingdom held true to the prediction of the modified model by completely abandoning any semblance of free trade in this time frame. In 1931, the United Kingdom passed the Abnormal Importations Act which allowed for import duties up to 100 percent on certain goods (Capie, 1983:41). The purpose of the Act was to lessen imports of goods that were coming into the United Kingdom in 'abnormal' quantities (Isaacs, 1948:358). The Act imposed duties of fifty percent on three different ranges of imports that met this specification (Capie, 1983:41). In the same year, the Horticulture Products Act was passed and imposed high levels of duty on fruits, vegetables, flowers, and plants from outside the Empire (Isaacs, 1948:358).

In the following year, the Import Duties Act of 1932 was passed, subsuming the first two Acts of the time period and establishing the first general tariff system since the 1830s (Lake, 1988:189). This Act extended a ten percent duty on all items not previously covered except those items coming from the Empire and certain raw materials (Isaacs, 1948:359). Also allowed under the Act was the authorization to increase rates up to 100 per cent *ad valorem* and to enter into reciprocal trade agreements (Isaacs, 1948:359). By the end of 1932, most goods imported carried a duty of twenty percent and only thirty percent of the imports entered duty free (Capie, 1983:42-44).⁴ These tariff acts remained in effect until the beginning of World War II in 1939.

The national security interests of the United Kingdom reinforced the need to follow its economic incentives. During this time frame, international tensions reemerged in the Far East with the invasion of Manchuria by Japan and the withdrawal of Germany from the League of Nations. The United Kingdom saw Germany as the most likely threat to its security because of its geographic location and economic potential (French, 1990:188). With the increase in tensions, the United Kingdom concluded that rearmament was in its best national security interests.

To counter the German threat, the United Kingdom decided that it was necessary to rebuild its air force and allocate nineteen army divisions for placement in the Low Countries so as to deter Germany by showing that the United Kingdom and its Empire were willing and ready to fight a war (French, 1990:188). This rearmament was curtailed, however, because of a shortage of resources which is why it was imperative for the United Kingdom to follow its economic incentives (French, 1990:200). Unless the United Kingdom was able to build and maintain a credible deterrent force, Germany would not be deterred. It was therefore extremely important that the United Kingdom should fortify its economy as much as possible because failure to do so would jeopardize its future security.

Thus, the United Kingdom acted as predicted of a Spoiler according to the modified model for both economic and security reasons. The United Kingdom was no longer tolerant of any dumping of goods on its shores. It had been the repository of

⁴ At the end of the last period, 85 percent of imports entered duty free. This dramatic reduction highlights the shift from free trade to protectionism.

the surpluses of the world for too long and with its weakened position as a Spoiler, it was determined to minimize imports except from its Empire. With the increasing tensions in the international community, the United Kingdom found it imperative that it strengthen its economy so as to be able to rearm and deter Germany. Thus, the national security interests of the United Kingdom served to increase the importance of following its economic incentives as a Spoiler.

Since the United States was not previously a Hegemon, it did not have an established regime and leadership position to work off of as the United Kingdom did during the previous period. For the United States to achieve a more liberal international economy, it would have to pay the costs of both negotiating and then maintaining the regime. Because of its position as a single Supporter, without another Supporter to constrain its protectionist incentives, the United States is expected to increase its protectionist measures, leading to increased protectionism abroad (see Figure 5 and 7, Appendix II). Thus, the modified model expects a low probability that the United States would have the resources or the economic incentives to pay these costs. As the United States continued its isolationist military attitudes during this period, its national security interests complemented its economic interests in that it was only interested in strengthening its own economy and not worried necessarily about any other state so long as it maintained the flow of world trade.

Without another Supporter to constrain the protectionist incentives of the United States and the high level of instability in the international economy, it began the

period by implementing the Smoot-Hawley Tariff of 1930. This Tariff set rates that were the highest in the history of the United States yet only covered a relatively small number of imported goods (Lake, 1988:184). Table 9 clearly shows this as the level of duty on dutiable imports increased dramatically while the level of tariff on all imports increased only slightly. Thus, while the level of duty on items under the tariff was very high, the overall level of duty on all imports was lower than during the pre-World War I time frame (see Table 9).

Table 9

Level of Duty by Tariff Act, 1909-1934

<u>Tariff Act</u>	<u>Level of Duty on Total Imports</u>	<u>Level of Duty on Dutiable Imports</u>
Payne-Aldrich Act of 1909	20.0%	41%
Fordney-McCumber Tariff of 1922	13.9%	38.2%
Smoot-Hawley Tariff of 1930	19.0%	55.3%
Reciprocal Trade Agreements Act of 1934	14.4%	37.3%

The tariff was, however, the highest since the end of World War I and was thus met with outrage by the states in the international economy, who lashed back at the United States with their own protective tariffs (Condliffe, 1950:487). Specific retaliations against the Smoot-Hawley came from the United Kingdom, Italy, Spain, and Canada and pleas for reconsideration came from British India, Greece, Belgium,

Switzerland, France and Japan (Isaacs, 1948:231-237). These protectionist measures partially caused the breakdown of the unconditional MFN principle and trade subsequently declined to seventy percent of its 1929 level in 1931 and to thirty-five percent of its 1929 level by 1933 (Lake, 1988:185-186).

While world trade dropped precipitously, the foreign trade of the United States dropped even more, so that by 1933, the value of its foreign trade was a mere thirty-two percent of its trade value in 1929 (Isaacs, 1948:244). In its position as a Supporter, the United States was also concerned with expanding its exports. By 1933, however, the United States had put itself in a position in which it had to constrain its protectionist desires in order to regain its export markets.

To reestablish these export markets, the United States passed the Reciprocal Trade Agreements Act (RTAA) of 1934 which remained in effect through the end of the period. The RTAA was not a new tariff but was rather an amendment to the Smoot-Hawley Tariff. The RTAA was implemented so as to expand exports while still regulating imports by allowing the President of the United States to both enter into foreign trade agreements with other states and to lower existing duties by up to fifty percent (Isaacs, 1948:251). These agreements would then be accorded to any state which had an unconditional MFN agreement with the United States (Lake, 1988:205).

The results of the RTAA were that exports were almost twice as high in 1939 as in 1933 and twenty-two agreements had been concluded (Lake, 1988:207-208).⁵

Also, the level of duty on dutiable imports had fallen to 37.3 percent or one percent less than during the 1922 Fordney-McCumber Act, and the level of duty on all imports had fallen to 14.4 percent or a half of a percent more than the 1922 Act (see Table 9).

The national security interests of the United States dictated that it should follow its economic incentives. The United States continued its military isolationism throughout this period. As noted earlier, no formal alliance tying the United States to another state was made until the middle of World War II in 1942. The only concern the United States had was to grow stronger economically and stay as far away from the political activities of Europe and the rest of the world as possible. This became clear in 1939 when the United States did not take any action after Hitler invaded Poland and France. Rather, it took a direct attack on the United States by the Japanese at Pearl Harbor to entice the United States to join the fray in full force. The United States, then, followed its economic incentives because its economic situation was complemented by national security interests.

Thus, the United States acted according to its economic incentives during this time frame as expected by the modified model. As an unconstrained single Supporter in an international economy rife with instability, the United States followed its protectionist incentives with the passage of the Smoot-Hawley Tariff in 1930. When these incentives hurt the United States, it constrained them in an attempt to reestablish international trade and its export markets. Even though the RTAA decreased the high

⁵ It should be recognized that part of this growth in exports was due to the rearming in most states following the German invasion of Poland in 1939.

rates of protectionism in the Smoot-Hawley Tariff, it did not decrease the rates to levels below pre-World War I tariffs. Thus, the United States did not feel that the rewards of negotiating and maintaining a free trade regime outweighed the costs of doing so.

This was in line with the national security interests of the United States because of its continued military isolationism. The United States' only desire was for a stronger economy and therefore a stronger position in the international economy so as to not have to rely on any other state. Thus, the national security interests corresponded to the economic incentives of the United States.

France, during this time frame, was predicted to continue to be a Spoiler by the modified model (see Figure 5 and 8, Appendix II). As a Spoiler, France is expected to free ride on the international economy by adopting protectionist measures at home and attempting to expand exports abroad. France therefore is predicted to impose all costs of liberalizing the international economy on the single Supporter. With the increase in international tensions and especially the aggressive actions of Germany, France found itself in a position in which it had to fortify its economy so as to be able to build up its armed forces and defend itself.

Until 1931, France was not affected by the world-wide depression surrounding it. The instability in the international economic system, caused by the depression and the end of the gold standard in the United Kingdom, induced other states to implement defensive measures such as exchange depreciations and high tariff walls. These

measures combined with a decrease in demand for French products, increased competition abroad for exports, and the relatively high costs of production in France induced it to follow its economic incentives of implementing protectionist measures at home (Arndt, 1944:135-136).

By the end of 1931, exports from France were on the decline and it subsequently turned to protectionism. During the last time period, France had relied mainly on the tariff for protection against imports. By 1928, France had locked seventy-two percent of its tariffs into non-negotiable treaties and therefore had to rely mostly on import quotas to stem the tide of imports (Arndt, 1944:137). Import quotas were used on a broad spectrum of imports and by 1931, the quota system covered 1000 industrial products (Isaacs, 1948:369). In 1933, these quotas were reduced by one quarter and the remaining three quarters were used as bargaining tools so as to expand its exports (Arndt, 1944:137). By 1936, however, import quotas were again extended to include more than 3000 products (Isaacs, 1948:369). By 1937, France further increased its protectionism by raising tariff rates on goods not covered by treaties and subsequently raising them again in 1938 (Isaacs, 1948:370).

French national security incentives corresponded to its economic incentives because as tension with Germany increased, France became more concerned with its security. Germany's denunciation of the clauses of the Versailles Treaty concerning rearmament, its withdrawal from the League of Nations, its occupation of the

Rhineland and Austria, and its aid to the Franco forces in Spain clearly increased French feelings of insecurity.

France made numerous alliances during this time frame. Treaties were made with the United Kingdom, Poland, Rumania, Greece, and the Soviet Union. In 1935, however, the Soviet-German Pact of Non-Aggression was signed, breaking the Franco-Russian Alliance and thereby virtually nullifying expected support from the Soviet Union for France in case of German aggression (Knapton, 1971:499). Germany, if it took aggressive action against France, would thus only be facing one front instead of two.⁶

France therefore saw the importance of improving its economy as a way to gird its military security. Several steps were taken to strengthen the position of its military (Knapton, 1971:497). First, the pace of rearmament was increased. Second, the government was given the authority to marshal all civilians, material, and financial resources deemed necessary if a war started. Finally, private war industries were given credits from the government and a bureau of military production was established.

Thus, during this time frame, France acted as expected of a Spoiler according to the economic and national security incentives expected by the modified model. France maintained and increased protectionist measures throughout the period without any attempt to liberalize trade on the international level. French national security incentives, however, accorded with these economic incentives as France had to rely on

⁶ Clearly the Soviet Union would have been a help only if Poland allowed safe passage of its troops to attack Germany. Even though this was not guaranteed, Poland would have probably agreed to the passage due to the mistrust of Germany after the first World War.

itself for its defense. Even though France maintained commitments with other states in Europe, it had lost its alliance with the Soviet Union. France had to be prepared to defend itself. This required fortifying its economy so as to better rearm itself. Thus, France acted as predicted of a Spoiler on both economic and security grounds.

Germany, like France and the United Kingdom, was predicted to be a Spoiler by the modified model during this time period (see Figure 5 and 9, Appendix II). Germany is therefore expected to free ride on the international economy by implementing protectionist measures at home and imposing all costs of liberalizing the international economy on the single Supporter. In this case, national security interests must be considered at the same time as economic incentives because the two were inextricably linked by the Nazi government of the 1930s. The wish to overturn the Versailles Treaty and the belief that Germans were the master race destined to rule the world caused all of its economic activity to be based upon military necessity.

Germany continued its protectionist trend throughout the time period as it worked at separating itself from the international economy and making itself more independent from other states. In 1932 a general system of import control was created so as to limit the amount of capital leaving Germany. From February to May of 1932, the amount of capital allowed to be sent abroad was decreased by fifty percent (Isaacs, 1948:374). By 1933, the Nazi government had imposed bureaucratic control of imports, exports, quotas, licenses, and exchange restrictions and began to make barter agreements to make up for the reduction in capital allowed abroad (Isaacs, 1948:375).

Imports were also severely limited in agriculture and raw materials. A system for food rationing and the use of substitute food items partially made up for the loss in agricultural products as the government considered military equipment to be more important than agricultural production (Isaacs, 1948:376; Tenbrock, 1979:285). Industrial imports were also reduced as Germany reorganized its industrial production around the military and a four-year economic plan in which new synthetic materials of military importance were created to replace natural raw materials from abroad (Tenbrock, 1979:285).

Thus, Germany, as predicted by the modified model, continued its protectionist trend throughout the period until it began World War II in 1939. Even though Germany during this period was no longer a market economy but a controlled economy, it still interacted with the rest of the world and it still attempted to protect its economy so as to strengthen it. Germany imposed total control of the economy through the bureaucracy of the state and greatly limited imports through a myriad of protectionist measures.

Germany's national security interests accorded with its economic incentives. Germany was "building a new trading system, the center of which was the German military economy" (Isaacs, 1948:378). Germany, then, implemented protectionist measures not only because of weaker economy and weaker position in the international economic system but because of its desire to be militarily independent and capable of taking on the world.

Overall during this time frame, each state acted as predicted by the modified model because of economic and security considerations. The United States, as the sole Supporter, had no constraints on its protectionist desires. When these desires resulted in the diminishment of world trade, the United States worked at getting the wheels of commerce turning once again. Because of its military isolationism, the United States cared only about strengthening its own economy and keeping world trade flowing. Thus, its national security dictated that it follow its economic incentives so as to improve its economic standing in the world economy.

Both the United Kingdom and France, as Spoilers, were expected by the modified model to impose protectionist measures at home. They acted as predicted because of their declining positions in the international economy as well as because of heightened tensions due to Germany aggressive actions. The United Kingdom needed to reinforce its economy because it lacked the resources to adequately build its defense forces so as to deter Germany from further aggression. France also felt that it was necessary to rearm due to the aggressive actions of Germany and because it had lost its alliance with the Soviet Union. Thus, both France and the United Kingdom acted as expected of Spoilers because of their relatively weaker positions in the international economy and the tension caused by the aggressive actions of Germany.

Germany was also a Spoiler during this time frame and even though it acted in the same manner as France and the United Kingdom, it was clearly for totally different reasons. Nazi Germany considered its security to be directly tied to its economy and

the size of its territory. To satisfy its national security interests, Germany believed that it had to go to war. Thus, all of its economic activities were directly linked to its military requirements. To satisfy these requirements, the economy had to be strong and self-sufficient. Thus, Germany acted as expected of a Spoiler as its economic and security incentives complemented one another.

CHAPTER 4:

U.S. CASE STUDY

The international economic structure between 1945 and 1986 can be broken down into four different time frames based on the number and type of states existing within that structure.¹ Figures indicating the progression of each country through these time frames can be found in Appendix II. According to the modified model, from 1945 until 1953, the United States is predicted to be a Hegemon while France, Germany², and the United Kingdom are predicted to be Spoilers (see Figure 10, Appendix II). The international economic structure, then, is a hegemonic structure. Thus, the United States, as the Hegemon, is expected to attempt to create a liberal international economic regime. The other states, without taking national security interests into account, are expected to free ride and assume that the Hegemon will pay the price of keeping export markets open.

The second period extends from 1954 to 1971. During this period, the United States declined to Supporter status, France, Germany and the United Kingdom

¹ From 1945 to 1949, only the percentage of world trade could be calculated. Statistics necessary for the compilation of relative productivity were not available for all of the states under examination. Because the economies of France, Germany, and the United Kingdom were heavily damaged by the war, it is a valid assumption that each would either be a free rider or spoiler because of low relative productivity. Thus, they are assumed to hold the same position in the international structure from 1945-1949 as they hold during 1950-1953. See Appendix I for further explanation concerning why relative productivity could not be calculated.

² Throughout this chapter, the name 'Germany' refers to the Federal Republic of Germany (FRG). The name 'East Germany' refers to the German Democratic Republic (GDR).

remained Spoilers, and Japan made the transition from Free Rider status to Spoiler status (see Figures 11 and 12, Appendix II).³ According to the modified model, this period of single supportership is predicted to be fairly stable because the United States paid the price of creating the regime in the previous time frame and should still have remnants of its previous influence despite the decline in its resources. The other states in the international economic structure, being Spoilers, are expected to free ride on the efforts of the United States by making it pay all of the costs of maintaining the liberal economic regime. These predicted trade policies do not take into account national security considerations which may act to change the position of individual states.

The third period, from 1972 to 1977, found the international economic structure containing the United States and Germany as Supporters while France, Japan and the United Kingdom remained Spoilers (see Figure 13, Appendix II). This structure of bilateral supportership is expected to be stable with a good probability that the liberal economic regime will be maintained. Because the United States had paid for the creation of the regime, the costs the Supporters would have to collectively pay to maintain the regime were lower. The potential for cheating does still exist, however, which may cause instability and result in protectionism on the part of those states that felt that they had been cheated. Also, national security considerations may again play a role in determining an individual state's trade policy and adversity to cheating on the part of others.

³ Japan made the transition from Free Rider to Spoiler in 1967.

The fourth time period extends from 1978 until 1986. During this period, Japan and France joined the ranks of the Supporters, creating an international structure of multilateral supportership (see Figure 14, Appendix II). The same argument applies for this period as for the third period. The liberal economic regime has a good chance of being maintained but potential for cheating exists. Finally, national security interests must be examined as an integral part of the trade policy decisions of individual states.

A. 1945-1953: HEGEMONY

This period was one in which the United States was the undisputed Hegemon and the other states under examination were Spoilers (see Table 10; Figures 10 and 15, Appendix II). This structure leads to the expectation that the United States would pay the costs of creating and maintaining a liberal international economic regime. Without considering national security interests, the other states would be expected to free ride by protecting uncompetitive national industries at home while taking advantage of the liberal international economic regime to expand export markets. National security interests of the individual states, did however, play an important role in affecting the trade policies of the states.

Because of the disintegration of world trade that came as the result of the protectionist policies of the 1930's, the United States had a vested interest in creating

Table 10

The International Economic Structure, 1952

<u>Year = 1952</u>	<u>U.S.A.</u>	<u>France</u>	<u>Germany</u>	<u>U.K.</u>
Proportion of World Trade	17.1%	5.5%	5.1%	10.94%
Relative Productivity	2.42	0.23	0.72	0.75
Predicted International Position	Hegemon	Spoiler	Spoiler	Spoiler

and maintaining a liberal trading regime as it's economic strength was dependent on access to foreign markets (Spero, 1990:68). It was Secretary of State Cordell Hull who played a key role in advocating the position that through open trade, economic prosperity and world peace would result (Spero, 1990:68). The United States government agreed with this position when they stated through the State Department (Gardner, 1980:102) that

The only nation capable of taking the initiative in promoting a worldwide movement toward the relaxation of trade barriers is the United States...[because of] the importance of its market to the well-being of the rest of the world.

The first such initiative came in the form of the Havana Charter. In 1946, the United States proposed an international conference to negotiate its proposal for an international convention that would regulate as well as reduce barriers to free international trade (Spero, 1990:69). Because of internal politics, the United States

Congress would not pass the Charter. Consistent with its predicted position as the Hegemon, its opposition effectively ended any hope of the Charter being put into effect.

At the same time, the United States kept pushing for a liberal international trade regime through other means. The General Agreement on Tariffs and Trade (GATT) had been agreed upon in 1948, two years before the Havana Charter was officially declared dead by the United States. GATT was intended to be a temporary treaty which would be incorporated into the Havana Charter but instead became the international trading organization that the United States had been looking for. GATT's basic purpose was to achieve "freer and fairer trade" by reducing tariffs and other barriers to trade (Gilpin, 1987:190-191).

As the Hegemon, the United States was also willing to pay the costs of keeping the liberal trade regime going by attempting to rebuild the war torn economies of Japan, France, Germany, and the United Kingdom. This rebuilding effort meant encouraging regional liberalization in Europe despite open discrimination against the United States and accepting fewer benefits by allowing the European and Japanese economies to impose import controls and therefore grow at a faster rate (Spero, 1990:72-73).

Thus, according to the modified model, the United States followed a trade policy that was expected based on its economic incentives as the Hegemon in the international economic structure. It must be realized, however, that the United States

was not simply concerned with its own economic welfare and that of Europe and Japan. Rather, the United States had vital national security interests in maintaining economically strong allies. The Soviet Union played a large role in formulating U.S. policy. With the advancement of the Soviet Union into East Central Europe, the United States realized that it had to strengthen the economies of its allies lest they fall prey to internal instability that might lead to communism. Large scale economic assistance was seen to be in the best interest of the United States because of the belief that an economically strong Europe would enhance the security of the United States (Hieronymi, 1973:86). The costs to the United States of providing economic assistance would be much cheaper than defending Europe militarily (Hieronymi, 1973:86). These security concerns were therefore important factors in the desire of the United States to liberalize trade.

During this period France, Germany, and the United Kingdom were Spoilers (see Figures 10, 15, 16, 17, and 18, Appendix II). In each case, the individual state should have attempted to free ride while imposing all of the costs on the Hegemon. The national security interests of these states, however, influenced each to go against its economic incentives.

France, Germany, and the United Kingdom all joined GATT when it was brought into being in 1948.⁴ This meant that they were bound by the rules of GATT which meant inevitable liberalization and tariff reduction. This is not to say that trade

⁴ Japan was not allowed to join until 1955 and that decision was made possible only with a considerable amount of pressure from the United States.

was totally open or that there were no loopholes. Even though they were a part of the GATT structure, it was difficult to punish transgressors because the dispute settlement mechanism took a lot of time, states could delay or block decisions, and these decisions were non-binding (Spero, 1990:71).

However, the Europeans were also engaged in trade liberalization through their own initiatives. The Organization for European Economic Co-operation (OEEC) was brought into being during this time period and it illustrates how Europe moved toward free trade but at the same time, still engaged in protectionist activities.

The OEEC was created in 1948. The organization's immediate aims were to consolidate and efficiently use the aid for European reconstruction, the incremental dismantling of protectionist barriers to trade, and the eventual termination of discrimination against the dollar as the various economies regained their pre-war strength (Scammell, 1983:132). The states within the OEEC were committed by Article 4 of the Convention for European Economic Co-operation to

develop, in mutual cooperation, the maximum possible interchange of goods and services. To this end, they will...co-operate in relaxing restrictions on trade and payments between one another, with the object of abolishing as soon as possible those restrictions (Quoted in Hieronymi, 1973:88).

Until the OEEC Code of Liberalization was adopted on August 18, 1950 to specifically implement Article 4, liberalization was proceeding at a very slow pace. This Code was put into effect at the insistence of the United States (Hieronymi, 1973:96). The Code committed each state within the OEEC to "take the necessary

measures would result "in serious economic disturbance" in the economy of the member country (Hieronymi, 1973:96-7). However, the Code also stipulated that the member state could not impose restrictions for more than twelve months and that if the OEEC found the restrictions to be unjustified, the member state would have to re-institute the liberalizing measures immediately (Hieronymi, 1973:97). In theory, then, the individual member states of the OEEC were liberalizing intra-Europe trade and acting as their own watchdog.

In the original Code of Liberalization, a goal of sixty percent of imports to be free of restriction was set and was subsequently increased to seventy-five percent in 1951. Even though the member states did not fulfill the goal, they came close (see Table 11). The table shows that the member states came close to achieving their goal and by 1954, only France had not been able to meet it, even though it was not far behind the desired schedule of 75%.

Table 11

Effective Percentage of Liberalization of

Intra-European Trade

<u>Year</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
France	58	75	----	----	51
Germany	47	----	77	90	90
U.K.	57	90	46	58	80

Note: ---- stands for suspension of liberalization. (Hieronymi, 1973:107).

While intra-European trade was clearly liberalized until 1954, trade with the United States was affected more by protectionist measures (see Table 12). For example, in 1948, the United States provided almost 28 percent of the imports for France, Germany, and the United Kingdom. In 1954 however, the United States provided only nine and a half percent of the total amount of trade for these states. Even though much of this decline was the result of the ending of the Marshall Plan in which the United States paid for the imports to Europe, the liberalization of trade in Europe and protectionist measures instituted or kept in place against the United States partially caused a decrease in the amount of trade that the United States was able to

Table 12

Percentage of Imports From United States

Year	France	Germany	U.K.
1948	17.17%	56.93%	8.81%
1949	17.75%	36.68%	9.81%
1950	12.26%	15.94%	8.09%
1951	11.25%	19.47%	9.74%
1952	10.09%	15.59%	9.06%
1953	9.78%	10.37%	7.57%
1954	9.04%	11.56%	8.37%

Note: Table 12 is derived from Hieronymi (1973:140, 143, 146).

have with Europe.

Thus, there was a substantial lowering of barriers among the member states of the OEEC. This did not preclude some discrimination against outside countries, most importantly, the United States. The United States allowed the OEEC to come into existence because of the importance of rebuilding its European allies. This was the case despite the fact that the OEEC still maintained certain protectionist measures that discriminated against the United States. This protectionism, however, was less than what the individual countries would have used. France, Germany, and the United Kingdom were still furthering free trade on their own and did not solely have protectionist policies as would be expected of Spoilers.

To explain the reasons behind these policies, it is necessary to examine the national security interests of France, Germany, and the United Kingdom. After World War II, these three states were devastated economically and militarily. They were each dependent on their strongest ally, the United States, for reconstruction aid as well as for security against the Soviet Union. Europe's concerns were strengthened by the blockade of Berlin and the fact that the Soviet Union was pushing the borders of Western Europe by establishing Communist regimes in Eastern Europe (Pollard, 1974:158-159). Also, the United States was the only state in the world with a nuclear capability. Together, these reasons enforced the belief that the defense of the free world lay in the hands of the United States.

The security relationship of these states began with the institution of the North Atlantic Treaty Organization (NATO) in 1949. The members of NATO were committed to the philosophy that an attack on one member state was an attack on all of the states. The whole structure, however, was predicated on the strong presence and leadership of the United States. Without the United States, there was no NATO. Further, the United States provided large amounts of aid to each of the states. Each state was therefore dependent on the United States for its defense and therefore had a larger propensity to follow the economic prescriptions of the United States. Since their national security interests depended on the strength and good will of the United States, as will be shown below, the individual states felt that they had to comply with the American requests.

During the early 1950's, France was in the midst of domestic economic crises, chronic balance of payments deficits, and the Indochina War (Harrison, 1981:34). The result was that there was not enough money left to rearm French defenses. Thus, from 1951 to 1954, the United States provided one-quarter of the French defense budget and one-half of the equipment costs of rearmament (Harrison, 1981:33-4). By 1954, France realized that if it remained non-nuclear, it was in danger of becoming even more dependent on the United States for its security, thereby relegating it to the position of a protectorate (Harrison, 1981:37). At the time, however, it was still dependent on the United States and therefore felt it necessary to follow its economic prescriptions.

The United Kingdom, which partially helped the United States develop nuclear weapons during World War II, first tested an atomic weapon on 3 October, 1952 (Freedman, 1980:1). Despite this fact, the United Kingdom could not proceed unaided but had to rely on the good will of the United States to provide the technology and monetary support to acquire the weapons. By 1954, the United Kingdom preferred a nuclear over a conventional defense but still had a small and technologically crude force. They were still therefore dependent on the United States. The government of the United Kingdom felt that, "Politically it surrenders our power to influence American policy and...therefore weakens our prestige and our influence in the world, and the other might imperil our safety (Freedman, 1980:5). Even though the United Kingdom, like France, was concerned about an over-reliance on the United States for defense, it had no choice during this time period. Therefore, it had to follow the economic prescriptions of the United States to ensure that its security would be maintained for the present time.

Germany was also dependent on the United States for its security and therefore was predisposed to follow its dictates. Geography played an important role as it is on the border of Eastern Europe and was the front line of defense against any Communist aggression. From 1950 until 1955, German and Western Military planners created the Bundeswehr, or German military (Kelleher, 1990:16). It was originally to be integrated into the European Defense Community but eventually ended up as part of NATO. Germany and the Bundeswehr were to be a key element in Western exertions

to deter Soviet aggression (Kelleher, 1990:16). Another key element was to be the stationing of Allied troops, especially American troops, on German soil (Szabo, 1990:9). Any attack on Germany would be an attack on American soldiers and therefore on the United States itself. Finally, Germany, like France and the United Kingdom, was considered to be covered by the nuclear umbrella of the United States.

Thus, Germany's military security was almost completely tied to the United States. Also linked to the idea of military security was economic security. This manifested itself in the economic union of American, British, and French zones in 1948 and the rejection of links to East Germany in 1949 (Kelleher, 1990:17-18). These two links were meant to placate the other states in the world and convince them that Germany was charting a new course toward democracy and lasting peace. Thus, Germany had no choice but to follow the economic prescriptions of the United States.

The United States, unlike the European states in the study, acted as expected according to the economic incentives of the modified model. The European states bore a significant part of the burden of free trade considering that they were all still rebuilding from World War II. Not only did they become members of GATT but they also created their own organization, the OEEC, which had specific goals of reducing barriers to trade. Granted, they did maintain discriminatory practices, but according to the model, they should have assumed that the Hegemon, the United States, would bear all the costs of liberalization. On the contrary, these states took it upon themselves to

extend freer trade throughout Europe. Even though the United States did bear the majority of the burden for maintaining the system, it definitely did not do it alone.

The main reason that the United States and Europe forsook trade discrimination was national security interests. The United States believed that a stronger Europe would enhance its national security and the Europeans knew that they were dependent on the United States for their own security. Thus, the European states felt compelled to comply with the liberal international economic regime that the United States was building.

B. 1954-1971: UNILATERAL SUPPORTERSHIP

After 1953, the proportion of world trade for the United States declined to less than fifteen percent (see Table 13). Because of the United States' tremendous relative productivity, however, it qualified as a Supporter (see Figure 11, 12, and 15, Appendix II). Until 1972, the United States was the only state to qualify as such and the international economic structure consequently changed from hegemony to one of unilateral supportership. The United States, since it was a Hegemon in the previous period, was expected to maintain the liberal international economic regime. The ability of the United States to maintain the liberal economic regime improved markedly since it did not have to pay the negotiating costs of creating such a regime as it had already done so during the previous time period.. Each of the other states in the study retained its position from the first period examined except for Japan, which with its

inclusion, made the transition from Free Rider to Spoiler in 1967 (see Table 13). Thus, each of these states, as Spoilers and without considering national security interests, should have again attempted to free ride while imposing the costs of regime maintenance on the United States. As will be shown, national security interests of individual states played a key role in determining whether a state followed its economic incentives or its security incentives.

Table 13

The International Economic Structure, 1955, 1967

<u>Year = 1955</u>	<u>U.S.A.</u>	<u>Japan</u>	<u>France</u>	<u>Germany</u>	<u>U.K.</u>
Proportion of World Trade	14.03%	2.33%	5.25%	6.57%	9.65%
Relative Productivity	2.38	0.29	0.28	0.74	0.7
Predicted International Position	Supporter	Free Rider	Spoiler	Spoiler	Spoiler
<u>Year = 1967</u>	<u>U.S.A.</u>	<u>Japan</u>	<u>France</u>	<u>Germany</u>	<u>U.K.</u>
Proportion of World Trade	13.16%	5.01%	5.39%	8.86%	7.27%
Relative Productivity	1.96	0.63	0.92	0.78	0.69
Predicted International Position	Supporter	Spoiler	Spoiler	Spoiler	Spoiler

The United States did begin to be slightly more protectionist in the mid-1950's. From around 1955, certain textiles and other light manufacturing imports into the United States from Japan increased rapidly within short periods of time (Komiya and Itoh, 1988:179). When this occurred, the United States asked Japan to impose voluntary export restrictions (VERs) for a specified length of time rather than going through the formal procedures outlined in GATT regulations (Komiya and Itoh, 1988:179). This however, was the exception to the rule. President Eisenhower strayed from the free trade position for fear that the textile industry might threaten the renewal of the Reciprocal Trade Act (Yoffie, 1986:41). President Kennedy also imposed protectionist measures on textiles during his tenure. However, each of these cases used alternative protectionist measures such as VERs and many of the allowances made were mostly symbolic rather than substantive (Yoffie, 1986:41).

The Kennedy Round of GATT negotiations, which began in 1964 and concluded in 1967, highlights the leadership strength of the United States and the great amount of liberalization that was occurring among the GATT members. This round was considered the "high-water mark of the movement for trade liberation in the twentieth century" (Scammell, 1983:172). The Kennedy Round cut tariffs at an average rate of 35 per cent on about 60,000 products traded on the international market (Scammell, 1983:172). These cuts were further strengthened by an anti-dumping agreement (Scammell, 1983:172). Thus, the United States was still playing a strong leadership role in further liberalizing trade among GATT members.

Overall, this time frame was very stable as was to be expected from the modified model. The period involved significant reductions in tariffs in the United States, Japan, France, Germany, and the United Kingdom. It is true that the United States was slightly more protectionist during this time frame and demanded more equitable policies on the part of its allies, but overall, the international economic structure was stable and increasingly liberal. Thus, in a very narrow sense, the United States behaved as expected in an economic sense as it did implement protectionist measures against Japan. It did, on the other hand, maintain its leadership position as evidenced by the GATT negotiations and the subsequent results.

National security interests, as well as economic incentives, played a role in the United States maintaining the liberal economic regime. The Cold War was at its height and the United States was still concerned with outperforming the Soviet Union. Even though nuclear weapons were becoming the weapons of choice, preparations were also being made for conventional attacks. Also, the spread of communism to third world states, the Korean War, the Cuban Missile Crisis, and the Vietnam War all highlighted the strength and appeal of communism to much of the world. Based on this, the United States again felt that strong allies, both economically and militarily, would have a positive effect on national security. Even though the United States could defend itself in either a conventional or nuclear war, it did not want to lose Western Europe to communism as this would result in economic disaster and isolation. In the same light, the United States did not want to lose its main democratic ally in

East Asia. Losing Japan would mean losing one of the few contacts in the region. Thus, it was clearly a vital national security interest of the United States to maintain and improve upon the liberal international economic regime.

As Spoilers, France, Germany, and the United Kingdom were expected to free ride again during this period by protecting weak markets at home and exporting abroad, thus making the single Supporter, the United States, pay the costs of regime maintenance (see Figures 11, 12, 16, 17, and 18, Appendix II). This was not the case, however, as the national security interests of each of these states influenced them to follow the prescriptions of the United States in furthering free trade.

As noted previously, the United States was clearly strong enough to maintain the stability of the liberal international economic system and the GATT members were complying with the required tariff reductions. Europe also continued making strides toward economic union and freer trade amongst themselves. Once again, some barriers and discriminatory practices were erected or left in place against the United States but they were done in the context of overall freer trade.

During this period, two organizations were created in Europe that would further liberalize trade. The first was the European Economic Community (EEC) that was created by the Treaty of Rome in 1957 and signed by France, Germany, Italy, Belgium, the Netherlands, and Luxembourg (the Six) (Scammell, 1983:134). In essence the EEC was another customs union that liberalized trade among the member nations while continuing discriminatory practices against outsiders such as the United

States. Because the United Kingdom could not agree with the Six and was subsequently excluded from the EEC, it made a counter proposal for a free trade area. Disagreements between the United Kingdom and the Six could not be worked out and on 4 January, 1960, under the leadership of the United Kingdom, the European Free Trade Area (EFTA) was established at the Stockholm Convention (Scammell, 1983:135). This trade block established free trade in industrial goods at the same levels of the EEC between the United Kingdom, Norway, Sweden, Denmark, Austria, and Switzerland while allowing tariff barriers to remain in place against other countries (Scammell, 1983:67, 135).

The difference between the two organizations was that the United States was willing to ignore the existing trade discrimination of the EEC because it had the potential to unify Europe, while it would not ignore the discrimination of the EFTA because it was seen as having little hope of unifying Europe (Scammell, 1983:136).⁵ Both organizations, however, reduced internal tariffs at about the same rate (Pollard, 1974:167). As well, the EFTA was considered to be a temporary alternative to the EEC because it was expected to eventually merge with the EEC (Postan, 1967:103). Because of the strength of the EEC and the encouragement of the United States, the United Kingdom finally joined the EEC in 1972 after two previous attempts to gain

⁵ It should be noted that the importance the United States placed on the unifying aspects of the organizations in determining whether it would ignore discriminatory practices highlights the security aspects of the arrangements the United States wanted to see. As in the previous period, it was not solely economic reasons but also national security interests that drove the United States to pursue a liberal international economic regime.

entrance in 1961-3 and 1966-7 (Pollard, 1974:168). Although the number of European states within the EEC was limited, it included the largest states in the region and the most powerful allies of the United States.

During this period, then, the two parts of Europe enjoyed freer trade. Both parts were also extolled to extend their free trade to states outside of their respective communities (Postan, 1967:104). One of the main results was the completion of the Dillon Round of GATT negotiations which cut tariffs by twenty per cent and which the European organizations applied to other states outside their own community (Postan, 1967:104). As mentioned earlier the Kennedy Round of negotiations, concluded in 1967, cut tariffs again by thirty-five percent.

Thus, Europe was again sharing the burden in liberalizing the international economic structure while continuing its protectionist ways, albeit in a reduced manner. As in the previous period, France, Germany and the United Kingdom were not acting as expected according to their predicted economic incentives. One of the key reasons was that each of them was still dependent on the United States for the bulk of their security.

As noted in the previous period, France was concerned with being relegated to an inferior status compared to the United States but was still dependent upon the United States for the bulk of its defense. Despite the fact that France acquired nuclear weapons and withdrew from NATO during this time frame, the French were still reliant on the United States for defense against communism. France exploded its first

atomic weapon on 13 February 1960 (Harrison, 1981:120). By 1966, France had thirty six aircraft on alert, with six containing nuclear weapons, although there were numerous doubts about the ability of the force to withstand a first strike and to penetrate Soviet air defenses (Harrison, 1981:121). Even though the French withdrew from NATO in 1966, their nuclear force was not large enough to deter an attack from the Soviet Union because of its vulnerability. As French President Charles de Gaulle stated, the French would be "under the yoke of a double hegemony" until it could provide for itself. Until the acquisition of an adequate nuclear force, which occurred in the beginning of the next time frame, France was still dependent on the United States for a deterrent from a large scale nuclear attack. Thus, France continued to further the goals of the United States by further liberalizing its trade policies rather than following its natural economic incentives.

Like France, the United Kingdom was still dependent on aid and technology from the United States for its defense and therefore followed the economic prescriptions of the United States. In 1960, the United States agreed to give the United Kingdom Skybolt which was an air launched ballistic missile and was figured to be useful until the 1970's (Freedman, 1980:8). By 1962, however, the United States had canceled the program, thereby discrediting it in the United Kingdom and forcing the British to search for something new (Freedman, 1980:15). The answer was the acquisition of the Polaris submarine which could launch ballistic nuclear missiles. Three submarines, the first of which became operational in 1968, were supposed to be

able to destroy between 15 and 24 cities and upwards of 25 million people (Freedman, 1980:32-34). The initial developments of Anti-Ballistic Missile (ABM) defenses caused the United Kingdom to believe that it could have only a marginal impact if it attacked the Soviet Union (Freedman, 1980:37-38). During the entire second period, then, the United Kingdom had to rely on the United States to provide an adequate nuclear deterrent from the Soviet Union. Thus, the United Kingdom felt it necessary to follow the economic prescriptions of the United States.

Germany also remained dependent on the United States for its defense. From 1955 through 1965, the Bundeswehr grew in size to approximately 400,000 troops, the largest component in the NATO force (Sloan, 1990:55). Germany also made strides in gaining the placement of Germans in major positions within NATO such as the Commander-in-Chief Land Forces Central Europe in 1957 and the Assistant Secretary-General for Political Affairs in 1966 (Sloan, 1990:56). Despite these gains by the German military, Germany was still concerned about its security based on Soviet aggression through the blockade of Berlin and the Korean War. This was especially true since Germany was not allowed to build nuclear weapons when the nuclear threat was very real. Exercises such as 'Carte Blanche' held in Germany showed that a war using tactical nuclear weapons would leave more than five times more casualties than in all of World War II (Freedman, 1981:109-110). Germany was thus very concerned about keeping the United States placated and on its side as it had no desire to cause a deterioration in the relationship. Therefore, Germany had a

stronger incentive to follow the economic dictates of the United States as this would increase its probability of survival than to follow its own economic incentives and thereby put its survival at risk.

During this time period, Japan played two different roles in the international economic structure (see Figures 11, 12, and 19: Appendix II). During most of this period, from 1954 to 1967, Japan was a Free Rider. Even though Japan's productivity was continuously increasing, it was not until 1967 that their percentage of world trade rose above five percent. This should have marked Japan's transition from being a Free Rider to being a Spoiler. In either case, Japan would be expected to continue protecting its home markets while furthering its exports markets abroad, thereby causing the United States, as a single Supporter, to pay the price of maintaining a liberal economic regime. Japan's national security interests dictated that Japan should abandon its economic incentives and instead follow the prescriptions of the United States.

Japan was allowed to join GATT in 1955 as a result of pressure by the United States on Europe. Yet, many European countries who were GATT members refused to grant Most Favored Nation (MFN) status to Japan until the early 1970's because of the perception that during the 1930's the Japanese had rapidly expanded its exports through the use of "cheap labor" and "social dumping" (Komiya and Itoh, 1988:178).⁶ Even though the United States bore most of the burden and Japan reaped most of the

⁶ This practice was allowed under Article 35 under which member states are allowed to refuse to have GATT relations with another member state.

benefits, Japan did begin to share part of the costs of the liberal regime.⁷ With Japan's entrance into GATT, it had to take part in existing GATT concessions, including those involving tariffs, of other GATT states under the MFN clause (Yamazawa, 1990:167). Thus, Japan had access to markets which had tariffs reduced in the previous three rounds of negotiations (Geneva 1947, Annecy 1949, and Torquay 1950-1) as well as reductions in later rounds (Yamazawa, 1990:167).

For the first time in its post-World War II history, however, Japan was forced to take liberalizing actions in reducing its tariff barriers and opening its markets to outsiders. During the Kennedy Round which concluded in 1967, very few import quotas were removed. However, from 1969 to 1972, import restrictions that were illegal under GATT were reduced from 122 to 33 (Komiya and Itoh, 1988:191).

Thus, Japan was definitely sharing the costs of the liberal economic regime by reducing its protectionist measures. Once they were allowed into GATT, they started to share the burden of the international free trade regime by lowering their tariff barriers and opening their markets to a greater extent than had been previously done. Japan did not, therefore, act according to the economic incentives of a Spoiler during this time period.

⁷ This help from the United States, as noted previously, was not altogether altruistic. Rather, it was due in large part to the takeover of China by the Communists and the Korean War (Komiya and Itoh, 1988:179). For Japan to serve as a bulwark of democracy in the Far East, it was necessary for them to have access to world wide trade which in effect meant access to GATT (Komiya and Itoh, 1988:179). Thus, the United States again had economic as well as security reasons for expanding the liberal economic regime.

National security interests pose at least a partial explanation for Japan's trade policy. The Korean War proved to Japan that the Communists were not above aggression. Even though the Korean War could have been considered more of a civil war with the goal of reunification, the fact that the Chinese were instrumental in North Korea's efforts indicated to the Japanese that the communists in the region would advance their type of political system in any way possible. Japan therefore became dependent on the United States for its security from these external threats. This dependence was embodied in the Treaty of Mutual Cooperation and Security. The Treaty, signed on 19 January 1960 in Washington, D.C., formally committed the United States to the defense of Japan on the basis of common interest and mutuality (Weinstein, 1971:88).

The Treaty also allowed the United States to maintain troops on and around Japan but did not place the United States under obligation to do so (Weinstein, 1971:89). Immediately following the signing of the Treaty, Japan became immensely concerned that the United States might fatally weaken the guarantee by not stationing troops in Japan (Weinstein, 1971:89). Even though this was not the case, the example highlights the importance that Japan placed on the security promises of the United States. Thus, Japan had security as well as economic incentives to follow the economic dictates of the United States.

Overall during this time period, except for the United States, the actors in the study did not act as expected based on economic incentives. The United States, as

predicted by the modified model, continued to play an important role in leading the international community towards greater free trade. Even though the United States did become slightly more protectionist as it imposed VER's on Japan in the mid to late 1950's, this was the exception rather than the rule. For the most part, the United States did not allow protectionism at home as it was leading the international economy towards greater openness.

The United States also still had national security interests in maintaining the liberal economic regime and furthering the strength of its allies in Europe as well as the Far East. After the Korean War and during the Vietnam War which occurred during this period, the United States was still concerned about the aggressive actions taken by the communists in North Korea, China, and the Soviet Union. Thus, it needed Japan to be a bastion of democracy and role model to others about the benefits of democracy in the Far East while it needed a strong Western Europe to dissuade the Soviets from contemplating attack.

France, Germany, and the United Kingdom also played important roles in furthering free trade through passing and implementing tariff reductions in the different GATT rounds. They still maintained protectionist barriers to those states outside of their European organizations but they shared the burdens of a liberal international regime with the United States by reducing tariff barriers in general and by taking the initiative in seeking freer trade among themselves.

The European states did not, therefore, act as according to their economic incentives based on their positions as Spoilers. National security interests played an important role in each of their liberal trade policies. France and the United Kingdom, while improving their respective nuclear forces, had not yet achieved full independence from the security guarantees of the United States. Germany, because of its geo-strategic position and Constitutional limitations on nuclear weapons, remained solely dependent on the United States for its security. Thus, national security incentives played an important role in forming the trade policies of the European states to more closely resemble those desired by the United States.

Japan, as either a Free Rider or as a Spoiler, also did not act as predicted based on its economic incentives. In each position Japan lessened its barriers by joining GATT and adhering to its requirements for tariff reductions. Although Japan had economic incentives to join GATT and thereby reduce its barriers because of increased accessibility to foreign markets, national security interests also played a role. The aggressiveness of the communists in East Asia clarified Japan's need to have the United States as the guarantor of its security. Thus, economic and national security incentives served to influence Japan to open its markets and begin to liberalize trade. National security interests were important factors in the shaping of foreign trade policy during this time period for each of the states in the study. This was to partially change in the coming time period.

C. 1972-1977: BILATERAL SUPPORTERSHIP

During this period, Germany's relative productivity rose to a level that accorded it a position of Supporter according to the modified model. The United States also maintained its previous position of Supporter throughout the period. France, the United Kingdom and Japan remained Spoilers throughout the period. The resulting international economic structure was one of bilateral supportership (see Table 14).

Table 14

The International Economic Structure, 1972

<u>Year = 1972</u>	<u>U.S.A.</u>	<u>Japan</u>	<u>France</u>	<u>Germany</u>	<u>U.K.</u>
Proportion of World Trade	12.32	7.41	6.21	10.35	6.16
Relative Productivity	1.67	0.79	0.96	1.1	0.57
Predicted International Position	Supporter	Spoiler	Spoiler	Supporter	Spoiler

The modified model would predict a system that has a moderate probability of maintaining the liberal international economic regime that was previously established and maintained. Germany and the United States, as Supporters, should have been the key actors in adopting and sustaining more liberal trade policies and both are expected to constrain protectionism due to the desire to maintain export markets. The Spoilers,

based on their economic incentives, are still expected to free ride in the system while allowing others to bear the costs.

The United States economy during this period was in a recession, partly because of the oil crisis and the costs of the Vietnam War. As expected of a Supporter, the policies of the United States became increasingly protectionist in some areas but for the most part continued in the direction of further liberalization (see Figures 13 and 15, Appendix II). Despite the fact that the Bretton Woods monetary system collapsed six months before the beginning of this third period, the United States and Germany were able to maintain a liberal international economic regime. Although protectionist measures did increase in some areas, tariff reductions continued to be negotiated as the United States and Germany were dependent on trade for the maintenance of their economic strength. Further, the national security interests of both Supporters influenced them to attempt to maintain freer trade.

Protectionist measures were implemented in the steel and textile industries but the commencement of the Tokyo Round was a strong indication that the United States was still interested in free trade. This period of bilateral supportership was more unstable than the previous unilateral supportership but the United States, in conjunction with Germany, was able to maintain a liberal international economic regime.

The steel industry provides one of the main examples of protectionism on the part of the United States. During the 1970's the competitiveness of the steel industry

began to decline on a global basis. The United States negotiated VERs on steel imports to the American economy with the EC and Japan in the face of Congressional bills proposing the establishment of import quotas (Komiya and Itoh, 1988:197).

These VERs also existed in the textile industry. The United States Congress, in passing the 1974 Trade Act, sent the message that they wanted the United States to move in a protectionist direction by requiring the president to submit to Congress any agreement reducing NTBs (Yoffie, 1986:43).

President Nixon, however, continued the United States on its course of increasing liberalization of the international economic regime. With tariffs at extremely low levels compared with the past in industrialized countries and a world wide recession in progress, NTBs became much more common. These NTBs were of enormous concern to the United States. Specifically, industrial targeting in which a government subsidizes specific industries was considered by the United States to be a grave threat to its competitiveness and to the liberal economic regime in general (Nieuwenhuysen, 1989:49). The United States, to counter this threat, helped begin the Tokyo Round of negotiations in 1973. The Tokyo Round aimed not only at reducing tariff levels but also aimed "to liberalize the network of 'non-tariff barriers', which [were] recognized as major impediments to trade" (Cline, 1978:2). Thus, the United States constrained the protectionist push in Congress and worked to expand the liberal economic regime. It protected only those industries that if felt could not compete on a global level but did so only in the context of a free trade regime. The

United States therefore continued to act according to the economic incentives predicted by the modified model as it protected its home markets when possible as long as it did not interfere with its export markets.

The United States continued to have national security interests in maintaining the liberal international economic regime. With the Vietnam War ending in a loss for the United States and the oil crisis causing prices to skyrocket, the allies of the United States needed to be kept strong and cohesive. Even though detente was attempted during this period, it eventually failed and the Soviets therefore remained a threat.

Based on this threat, the strength of its allies was still important for the United States. Granted, the allies of the United States were now much stronger than during the immediate post World War II years, but the United States considered their strength to be an asset in the fight against communism, especially as its global influence declined. Even though the United States still had a lot of influence around the world, that influence had much weakened over the years since World War II. Free trade was still seen as a benefit and a necessity to maintaining a strong national economy for itself as well as for its allies. Thus, free trade was considered to be in the national security interests of the United States.

During this period, France, Germany, and the United Kingdom continued working at further liberalizing trade despite their differing roles. It was during this time frame that the United Kingdom, Ireland, and Denmark entered into negotiations for entrance into the EEC. France as a Spoiler should have been resisting attempts at

further trade liberalization and Germany as a Supporter in a bilateral supportership should have been attempting to increase trade liberalization if it did not harm national industries. All three European states acted according to their economic incentives as predicted by the modified model for both economic and security reasons.

Germany, as a Supporter in a structure of bilateral supportership, should have been attempting to increase the liberalization of the system if it served their export purposes (see Figures 13 and 17, Appendix II). Germany did just that in fighting for the entrance of the United Kingdom into the EEC. Germany wanted to end the division of Europe into different trading blocs (Isaak, 1991:96). Its motives, however, were not altruistic as they stood to gain much in the way of economic benefits from the entrance of the United Kingdom, the Commonwealth, and other members of the EFTA. As Germany's economy had grown larger, its export markets had likewise grown larger. Germany had approximately three times as much trade as did France with the countries that were applying for membership and was therefore more supportive of their desires to enter the EEC (Isaak, 1991:96). While Germany's economic position would improve with the entrance of the United Kingdom and the other states, the position of France would weaken, thereby shifting the locus of power in the EEC to Germany (Isaak, 1991:96). Thus, it was to Germany's advantage to gain admission for the United Kingdom and the other states and to thereby further liberalize trade.

Again, German national security interests played a key role in Germany's foreign trade policy decisions. As noted earlier, the communist threat from the Soviet Union had not diminished appreciably and Germany was therefore still the middle ground on which all fighting would most likely start. Germany therefore had the same incentives as the United States in keeping the Western allies interlocked. Even though Germany wanted to be relatively stronger than its allies, it did not want those same allies to be weak. It wanted a strong Western alliance so as to continue to deter the Soviet Union from attack. Thus, it was in the national security interests as well as the economic interests of Germany to work with the United States to maintain a liberal international economic regime.

France, unlike Germany, did not want the United Kingdom to join the EEC for several reasons (Isaak, 1991:96). First, it would lessen the power of the Franco-German informal alliance. Second, it would lessen the French power in the EEC decision making process and make that process more difficult because of cultural differences between the two states. Third, if the United Kingdom was admitted, it would bring with it the "baggage" of the Commonwealth. Finally, France did not like the close ties that the United Kingdom had with the United States. Thus, France did not want to pay any of the burdens of an increasingly liberal international economy.⁸

⁸ It is conceded that some of France's reasons for not furthering liberalization in the international economy had little to do with economic incentives. However, France was still anti-liberalization as it felt this course would have deprived it of economic benefits that it did not want to lose.

Even though the United Kingdom was granted membership in 1973, France wanted to protect its power as much as possible.

For the first time since World War II, France acted according to its predicted economic incentives as a Spoiler (see Figures 13 and 16, Appendix II). France did not feel that its national security interests merited a change in foreign trade policy away from its economic incentives. The reason was that it was not until the beginning of this time period in the early 1970's that France had a nuclear force, made up of ground and sea launched ballistic missiles, that was capable of acting as a credible and independent deterrent against the Soviets.

In 1972, eighteen Intermediate Range Ballistic Missiles (IRBM's) were made operational with their placement in hardened silos (Harrison, 1981:122). In 1971, the first of five missile launching nuclear submarines, *le Redoutable*, became operational (Harrison, 1981:121-122). The next three nuclear submarines became operational in 1973 and the fifth coming on line in 1977 (Harrison, 1981:121). These two nuclear capabilities launched France into an independent position in the world. No longer was France dependent on the United States to deter the Soviet Union from attack. Now the French had a credible force that was completely under the authority of the French government. With this newly found independent position, France no longer had to submit to the desires and prescriptions of the United States. They were independent and determined to make their own economic decisions.

In the case of the United Kingdom as a Spoiler, the modified model predicts that it would free ride by imposing the costs of liberalization on others, especially the two Supporters, the United States and Germany (see Figures 13 and 18, Appendix II). It did exactly this. The EFTA, which the United Kingdom founded, was not doing nearly as well as the EEC (Isaak, 1991:96). Thus, the United Kingdom applied for membership in the EEC. By getting access to the EEC in 1972, it was gaining access to a large free market that had brought down many of its barriers. The United Kingdom, however, still had many tariff barriers in place and would have a phase in period from 1973 to 1977 in which to reduce them (Crafts and Woodward, 1991:163). At the same time, the United Kingdom still had other protectionist barriers in place in the form of regulations and rapidly increasing subsidies to shore up inefficient and uncompetitive industries (Crafts and Woodward, 1991:3). This allowed the United Kingdom to free ride until 1977 (the end of the period) when it had to reduce its tariff barriers to the acceptable level for the EEC. Thus, they definitely played the role of a Spoiler during this period.

During this period, unlike any other since World War II, the United Kingdom did not have national security interests that would supersede its economic interests. During the 1960's, the Soviet Union began to develop and deploy an Anti-Ballistic Missile (ABM) system which was supposed to be able to neutralize the nuclear capabilities of smaller nuclear powers (Freedman, 1980:37). However, in 1972 the Strategic Arms Limitation Talks (SALT) Treaty was signed in Moscow, which limited

the number of ABM sights (Freedman, 1980:44). The ABM technology was also increasingly coming under fire as doubts about the supposed capability of such defenses were raised. At this point, the United Kingdom was able to consider itself more independent from the United States. If the Soviet Union had continued to build and place ABM's in an uninhibited manner, the United Kingdom's nuclear force would have been in jeopardy of being useless. This was not the case, however. Rather, the nuclear force turned out to be a sufficient deterrent. Thus, the United Kingdom was no longer under the security blanket of the United States and no longer felt that it was necessary to follow the American economic dictates.

Japan still continued its trend toward liberalization in many respects during this period despite its position as a Spoiler according to the modified model (see Figures 13 and 19, Appendix II). This deviation from its economic incentives was again primarily because of its perceived national security interests.

For example, Japan reduced GATT-declared illegal import restrictions 18 percent by the end of 1975 and in December of 1972 unilaterally reduced tariff rates by 20 percent on all processed agricultural products, manufactures, and mining products (Komiya and Itoh, 1988:191). Further, Japan's tariff rates declined considerably more than any other country's from 1973 to 1975 at which time they were lower than those of the United States, the European Community, and the United Kingdom (Komiya and Itoh, 1988:191). During this period Japan also greatly liberalized its regulations regarding direct foreign investment. The regulations were

changed five times with each instance liberalizing the system to a greater extent (Grilli and Sassoan, 1991:87). Other previously important protectionist trade tools such as import licenses and exchange controls were phased out completely (Yoffie, 1986:46). Finally, Japan played a key role in the Tokyo Round of negotiations and its implementation was announced in September 1973 at the Tokyo meeting of the Ministerial Council of GATT (Komiya and Itoh, 1988:203). Thus, Japan was not acting as a Spoiler with its active role in attempting to liberalize trade.

This is not to say that protection did not exist in Japan during this time frame. Like all other countries, Japan still had non-tariff barriers which restricted the access foreign countries had to their market. For example, in 1972, laws were passed for the Promotion of Specific Electronic Industry and Specific Machinery Industries (Waldmann, 1986:65) which

instructed industries to decide what products to manufacture, to set production quotas, to restrict technology, and to jointly purchase parts and materials. Mergers were encouraged. The laws specifically fostered anti-competitive behavior and protected it from investigation by the Japanese antitrust authorities.

The Export and Import Trading Law was also used to create cartel arrangements for exports (Waldman, 1986:65).

Thus, trade barriers did exist in Japan despite tariff and other visible trade barrier reductions. These barriers were mostly NTB's however and were more difficult to deal with. This contributed to the growing instability of the international economic system. Even though outwardly trade barriers were being reduced, governments were

putting invisible barriers in place which undermined confidence in the system. As a Spoiler, Japan was predicted to live up to its external trade commitments in GATT but also to free ride as much as possible outside of GATT. Thus, Japan did not act as predicted because it continued to liberalize its economy through its own initiatives as well as through its external commitments. Japan did free ride through the use of protectionist policies to a moderate extent, but its overall liberalizing trend does not accord well with its position as a Spoiler.

National security interests were an important factor in Japan's liberalization efforts. Japan, as in the previous period, was tied to the United States for defense. During this period, Japan's Self-Defense Force (SDF) was considered secondary to the United States-Japan security alliance (Maswood, 1990:33). Also, with the breakdown of detente, the withdrawal of troops from Vietnam, and the threat of removing troops from South Korea, Japan was considerably worried about the willingness of the United States to intervene and defend Japan. Thus, Japan was influenced to continue the economic liberalization efforts that the United States was pushing for.

Taking the period as a whole, there was more instability in the international economy than during the previous two periods. The United States was declining in influence, both economically and militarily, which made it more difficult to maintain the liberal international economic order. Between the United States and Germany the liberal order was maintained, even though it was more protectionist as a whole. Thus,

the United States and Germany acted as expected according to their economic and national security incentives.

France did not want to do anything that would lessen its economic power and therefore did not want to let the United Kingdom into the EEC. The United Kingdom acted as a Spoiler as it gained entrance into the EEC, whose member states had already substantially reduced trade barriers, while its own barriers were allowed to be eliminated over the entire period. Thus, the United Kingdom was holding on to its protectionist policies as long as it could. France and the United Kingdom, no longer totally dependent on the United States for security, had foreign trade policies commensurate with their positions as Spoilers. They were both therefore able to follow economic incentives while preserving their national security interests at the same time.

Japan was the only state during the period to not act according to its predicted economic incentives. Even though Japan fit the model as a Spoiler during this time frame, it possibly grew stronger as a result of the breakdown of the Bretton Woods monetary system. When the system collapsed on 15 August 1971, the Japanese yen was undervalued. The subsequent shift to floating exchange rates began to strengthen the Japanese economy to the point where Japan began to realize the benefits of liberalized trade. Combined with this factor, Japan was still dependent on the United States for its security. Japan therefore had incentives to follow the economic prescriptions of the United States.

D. 1978-1986: MULTILATERAL SUPPORTERSHIP

It was during this period that France and Japan made the productivity gains that allowed them to be classified as Supporters. They joined the ranks of the United States and Germany who remained Supporters to create an international economic structure of multilateral supportership (see Table 15). Only the United Kingdom, despite a rebound in relative productivity, remained a Spoiler. As in the bilateral supportership of the previous period, each Supporter is expected to constrain its protectionist inclinations in favor of keeping its export markets open. There is still considerable latitude for protectionist actions that could lead to instability in the system if any of the Supporters decide to cheat on the others or not pay their fair share of the burden of maintaining a liberal international economic order.

Table 15

The International Economic Structure, 1980

<u>Year = 1980</u>	<u>U.S.A.</u>	<u>Japan</u>	<u>France</u>	<u>Germany</u>	<u>U.K.</u>
Proportion of World Trade	11.8	6.88	6.08	9.41	5.57
Relative Productivity	1.1	1.03	1.07	1.06	0.73
Predicted International Position	Supporter	Supporter	Supporter	Supporter	Spoiler

The United States had an outstanding track record of trade liberalization until this period even though it remained a Supporter (see Figures 14 and 15, Appendix II). Despite rhetoric from President Reagan that stated, "Our trade policy rests firmly on the foundation of free and open markets," reality showed the United States moving toward protectionism (Nieuwenhuysen, 1989:51). Several different protectionist measures were introduced (Nieuwenhuysen, 1989:51-2). First, the number of manufactured imports under quantitative restrictions more than doubled during this period. Second, VERs were once again imposed on Japan, this time in the automobile industry. Also, protectionist measures were imposed on carbon steel from the EEC, import quotas were reinstated on sugar in 1982, the enforcement of textile quotas was increased, and the proportion of manufactured imports under non-tariff restrictions jumped rapidly from 1980 to 1983. Several other protectionist measures were put in place by the American government in retaliation for alleged cheating by other states that had previously been tolerated at least to the point of taking no direct action. Under President Reagan, however, duties were placed on imports that were calculated to have received subsidies from their national government (Nieuwenhuysen, 1989:53). Most importantly, section 301 of the Trade Act of 1974, gives the President the "broad authority to retaliate or to take other action to obtain the removal of unjustifiable, unreasonable or discriminatory trade practices of foreign countries (Nieuwenhuysen, 1989:53)." This authority was extended in 1984 to include trade in services and foreign investment (Nieuwenhuysen, 1989:53).

Thus, the United States was acting like a Supporter in that it did not want to or could not bear the burden alone. However, the United States put more protectionist barriers into place during this period than during the bilateral supportership, mainly because it perceived, whether correctly or not, that other states were cheating on the liberal regime. Thus, the trend was toward more protectionism, not liberalization, thereby causing more instability in the international economy.

Even though the United States was declining in an economic sense and resorting to more protectionist measures, its national security interests were not expected to dictate the opposite. President Reagan, in his famous 'evil empire' speech, renewed the Cold War with the Soviet Union. The United States government ran up huge budget deficits to finance the building up of military strength and to develop new technology to defense against nuclear weapons. The United States also spent much time and money combating communist forces in Central and South America.

Based on these activities, the United States should have been vigorously trying to build up its own economy as the economies of its allies were closing the economic gap with the United States. Cooperation in the economic realm, therefore, was lacking compared to previous periods in the post-World War II era. The United States may have felt that other states were not paying enough of the burden for maintaining the liberal system commensurate with their economic strength. The United States may also have concluded that it could deter the Soviets from attacking Europe based on its nuclear arsenal alone, regardless of the military strength of its allies.

The United States thus fit in the modified model as a Supporter that cheated when faced with what it thought was cheating by others. It did not want to bring an end to the liberal economic regime, but rather it wanted a more fair regime. This had the effect of causing the liberal international economic regime to be more unstable and consequently more protectionist than it had been in the previous time periods after World War II.

Japan became a Supporter for the first time during this period (see Figure 14 and 19, Appendix II). According to the modified model, Japan should have attempted to maintain and further the liberal nature of the international economic regime. This would mean that Japan is predicted to have less protectionist policies than when it was a Spoiler and would sacrifice those protectionist policies in order to maintain their export markets abroad. These economic incentives coincided with its national security interests, thereby strengthening its resolve to further free trade.

Because of Japan's relative economic success and consequently positive trade balance, numerous trade frictions arose with the international community. In accordance with the model, Japan began to reduce its import barriers in following its new free trade philosophy (Komiya and Itoh, 1988:206). For example, in March 1978, Japan reduced tariffs on 125 products before the conclusion of the Tokyo Round and then reduced the tariffs mandated by the Tokyo Round in April 1980 which was ahead of the agreed upon schedule (Komiya and Itoh, 1988:206). This has led to

the conclusion by foreign officials that Japan has the lowest import tariffs of any of the industrialized countries (Komiya and Itoh, 1988:206).

However, NTBs were still considered to be too high in Japan by these same foreign officials, in part because these officials felt that the Japanese had to be cheating in some manner to be doing so well economically. Again, Japan sought ways to ameliorate the foreign markets by reducing these barriers as well. First, Japan finished all the required actions for acceptance of all of the agreements on NTBs concluded in the Tokyo Round before all of the other GATT members (Komiya and Itoh, 1988:206). Also, Japan made customs inspections procedures easier, sent officials abroad to seek exports to Japan, and put import promotion measures into place (Komiya and Itoh, 1988:206). Finally, in February 1982, the Office of Trade Ombudsman was established to investigate complaints by foreigners and Japanese businessmen concerning import procedures and government regulations which resulted in 117 of 159 complaints being rectified by 1984 (Komiya and Itoh, 1988:207). Thus, Japan was acting as expected by the model by becoming less protectionist and seeking to share the burdens of keeping the economic regime liberal.

Japan's national security interests continued to have an impact on its foreign trade policies during this period. Japan was still dependent on the United States for its national security. With the heightening tensions of the Cold War during this period, Japan felt that it was necessary to follow the economic requests of the United States.

Even though the United States was not following its own rhetoric, Japan had both economic and national security incentives to continue liberalizing its economy. Economically, Japan did not want to lose its market in the United States. Militarily, Japan did not want to lose the security guarantee of the United States. If anti-Japan sentiments were to run too high, the United States might distance itself from Japan, thereby decreasing its national security. Thus, it was important to mollify the United States and follow its economic prescriptions.

France, which became a Supporter for the first time during this period, and Germany, which continued to be a Supporter, will be considered together based on their activities as leaders within the EEC (see Figures 14, 16, and 17, Appendix II). Both countries, if they follow the predicted economic incentives, are expected to further the liberalization of the liberal economic regime according to the modified model. In reality, France pursued more protectionist policies and did not want to share the burden for a free trading system. Germany, on the other hand, pursued a trade policy that was more free trade oriented and was therefore more willing to share the burden for the maintenance of the system than was France.

During this period, the EEC was split into two groups, each of which had a different orientation concerning trade policy. France was the leader of the protectionist coalition that consisted of itself, the United Kingdom, Greece, Italy, and Ireland (Lieberman, 1988:151). Germany was the leader of the free trade coalition

which included itself, Denmark, and sometimes the Netherlands (Lieberman, 1988:152). Thus, the free trade coalition was weaker than the protectionist coalition.

One of the main determinants of which group an individual state fell in was based on its use of Article 115 of the Treaty of Rome that "allows member countries to deprive from Community treatment certain third-country goods moving freely within the EEC area, whenever they have reason to believe that such free movement causes stress to their national economy" (Lieberman, 1988:152). These deprivations came in the form of quantitative import restrictions, NTBs, and export promoting strategies (Lieberman, 1988:152).

The difference in use by France and Germany highlight each country's position on supporting the liberal economic regime (see Table 16). As evidenced by the numbers provided by the EEC in Table 16, France was playing a tremendously more protectionist role than was Germany.

Table 16

Use of Article 115 of the Treaty of Rome, 1981-1983

<u>Year</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
France	78	52	43
Germany	2	2	4

Source: Lieberman, 1988:152.

Thus, Germany was acting as expected according to the economic incentives as predicted by the modified model because it was sharing the burden with other countries in an attempt to maintain the regime. France, on the other hand, was acting more like a Spoiler in that it did not want to share the burdens equitably. Rather, France took advantage of the legislation to act protectionist whenever it so desired. Germany thus fits the modified model based on economic incentives.

When considering national security interests, Germany also fits the model. Like Japan, Germany was still totally dependent on the United States for security. Without the United States, Germany could not withstand a communist attack from the East. It had to rely both on the conventional and nuclear guarantee of the United States. Thus, it was important for Germany to follow the economic rhetoric of the United States, regardless of what the United States was actually doing, to ensure that the United States remained an unequivocal ally. Based on Germany's position in the international economic structure, its economic incentives coincided with its national security incentives which led Germany to take on a liberalizing role.

France, even though it had the economic incentives of a Supporter, acted in a protectionist manner commensurate with the incentives of a Spoiler. Examining national security interests shows that France was independent from other states as it continued to maintain a nuclear force that was independently capable of deterring the Soviet Union or any other state which might happen to threaten France. France,

therefore, did not have any national security interests that would interfere with its economic incentives.

The difference between France and the United States, although both were Supporters that cheated, was the fact that the United States imposed protectionist measures to retaliate against perceived cheating whereas France imposed these same measures as an end in themselves, possibly because of its economic burdens in West Africa. Thus, France was not concerned with improving the liberal nature of the international economy whereas the United States was.

France was free to maintain any economic policy it desired. The modified model would expect that France would work with the other Supporters to maintain the liberal international economic order. However, the potential to cheat still existed in this economic structure of a multilateral supportership. France may have cheated because it felt that it was being overburdened by its dealings with West Africa. As the economies of the CFA states declined, France may not have believed that it was in a strong enough position to act as a Supporter. In any case, France did maintain its protectionist trade policies during this time period and did not help to preserve the liberal international economic regime, thereby contradicting the modified model.

The United Kingdom, as the only remaining Spoiler among the countries examined, is predicted by the modified model to continue to free ride at the expense of others (see Figures 14 and 18, Appendix II). A number of recent studies find this expectation to be supported. A recent study concluded that in 1983, approximately 14

percent of the British economy was affected by NTBs and that this percentage had been growing rapidly over the last decade (Nieuwenhuysen, 1989:108). Another study found that almost 48 percent of trade was managed in some way in 1980 while the amount managed in 1974 was less than one percent (Nieuwenhuysen, 1989:107). These studies indicate that despite tariff reductions required as the result of the Tokyo Round of GATT negotiations, the United Kingdom was free riding and was reluctant to share the burden past any obligations made by the EEC and GATT.

The United Kingdom maintained an independent nuclear arsenal during this time period, as did France. Thus, the United Kingdom was not dependent on the United States for its national security. Rather, it had a nuclear force that was able to deter any state in the world. Further, in 1980, the United Kingdom began to acquire the American Trident missile systems (Rees, 1991:143). This further guaranteed that the United Kingdom would maintain its security independence well into the 1990's. Thus, the United Kingdom did not have any vital national security interests that would make it stray from its economic incentives. It therefore acted as a Spoiler, increasing its protectionist measures while imposing the burden of regime maintenance on the Supporters.

Overall, this time period was relatively unstable as two of the four Supporters, the United States and France, opted to impose protectionist measures and to place more of the costs of the liberal international economic regime on the other Supporters. This instability can be attributed mainly to the protectionism of the United States.

Even though the United States was a Supporter in economic decline, it still had a relatively large amount of influence among the Supporters. Because the United States chose to retaliate against perceived cheating, however, France was not deterred from cheating and it made the regime less legitimate in the eyes of the world. The other two Supporters, Germany and Japan, which were both gaining economic strength, were predisposed to follow the rhetoric of the United States that argued for freer trade among states. Combined with this predisposition, both states were also dependent on the United States for their security. Without the United States as an immediately available ally, both states would be very vulnerable to attack. Thus, both needed to follow the economic prescriptions of the United States, despite the fact that the United States was not following the same prescriptions.

CHAPTER 5:

CONCLUSION

The main conclusion of this thesis is that the modified theory, based on Lake's version of hegemonic stability theory, adequately predicts how a state will act in the trade arena based on its economic and national security incentives. Thus, for too long scholars have focused only on the economic incentives facing individual states in the making of foreign trade policy.

The modified theory of hegemonic stability, even though it adds a national security variable, preserves parsimony and predictability. The only state that did not fit into the modified model as expected was France during the last time period examined. Otherwise, every state acted as expected. This would not have been the case, however, if only economic incentives had been examined.

During the British hegemony and decline from 1870 until 1939, each state acted according to its economic and national security incentives. In each case, however, national security interests further strengthened the existing economic incentives of the state. In no case did national security change the economic incentives of a state. This was the case, however, because each of the states in the study were reliant mostly upon themselves for defense. There was no instance in which one state

was totally dependent on another for defense. Thus, each state, to preserve its security, attempted to improve its economic situation as it thought best.

This was not the case, however, in the post-World War II years of United States hegemony and decline. During this entire time frame, several states deviated from their respective economic incentives because of national security interests. These security interests dealt specifically with the nuclear umbrella of the United States. Immediately following World War II, the European states in the study were completely dependent on the United States for defense against the Soviet Union which was acquiring territory rapidly in Eastern Europe. Because the United States kept troops in these states, an attack on those states would implicitly signify an attack on the United States. While these states were Spoilers, the United States was pressing them to follow a free trade route. Because of their reliance on the United States, they felt that it was in their national security interests to repudiate their economic incentives and adhere to the desires of the United States.

Thus, if only economic incentives had been examined, the theory would have worked for the period leading up to World War II. After the war, however, the theory would have incorrectly predicted the foreign trade policies of the individual states fifty-five percent of the time. Only when national security incentives were examined did the foreign trade policies of the individual states make sense.

Table 18 shows a comparison of the results from Lake's theory versus the modified theory. A 'YES' in the Lake column indicates that economic incentives alone

correctly explained the trade policies of a state. A 'YES' in the Thesis column indicates that the combination of economic and national security incentives correctly explained the trade policies of a given state. Table 17 clearly shows that the thesis correctly predicted the trade policy more often than Lake's theory, especially during

Table 17

Comparison of Predictions, 1870-1986

	1870-1912	1913-1929	1930-1939	1950-1953	1954-1971	1972-1977	1979-1986
U.S. Position Lake Thesis	Supporter YES YES	Supporter YES YES	Supporter YES YES	Hegemon YES YES	Supporter YES YES	Supporter YES YES	Supporter YES YES
Japan Position Lake Thesis	N/A	N/A	N/A	N/A	Spoiler NO YES	Spoiler NO YES	Supporter YES YES
France Position Lake Thesis	Spoiler YES YES	Spoiler YES YES	Spoiler YES YES	Spoiler NO YES	Spoiler NO YES	Spoiler YES YES	Supporter NO NO
Germany Position Lake Thesis	Spoiler YES YES	Spoiler YES YES	Spoiler YES YES	Spoiler NO YES	Spoiler NO YES	Supporter YES YES	Supporter YES YES
U.K. Position Lake Thesis	Hegemon YES YES	Supporter YES YES	Spoiler YES YES	Spoiler NO YES	Spoiler NO YES	Spoiler YES YES	Spoiler YES YES

U.S. hegemony and decline. Specifically, the predictability improved from 71 percent to 97 percent.

The model is clearly not perfect, however. It is realized that there was both a discrepancy with France in the final time period. This clearly indicates that the model is not complete and that some other explanatory variable needs to be included. As I have argued from the beginning, states do not enact policy in a vacuum. Rather, they are the result of a number of complex interactions in the international economic structure as well as the domestic structure.

The results of this research, however, still imply that states are more concerned with security than they are given credit for. States do not solely examine the economic costs and benefits of a particular trade policy but rather consider all of its implications. If the major trading powers take this into account, it might enable them to more fully understand the other side's position and therefore be able to come to a compromise that is beneficial to all sides.

The author's interpretation of these interests may be considered flawed. If, however, one agrees with the modified model as defined in this thesis, then it is clear that national security interests cannot be ignored. Nuclear weapons caused an unforeseeable change to the security of individual states. The future always holds such unknowns and as such, may deliver a new weapon or new technology that will again change politics such that it is no longer recognizable to those of the recent past.

This thesis has been a first look at the question from a broad perspective. Even though the predictive power seems to be strong, the real reasons for the trade policies of individual states probably lie in both the international structure as well as the

domestic policy process. Thus, a more complete theory would probably examine both at the same time. The question would then become whether the domestic process felt constrained by the international structure and its position within it or whether legislation was enacted for totally different reasons but still happened to coincide with the constraints of the international system.

A better theory might also eliminate much of the subjectivity in the research. Better operationalization of national security interests would definitely make the results more reproducible. Another way to reduce subjectivity would be to make a quantitative measure of free trade and protection. As the modification stands now, subjectivity plays a major role, especially in the interpretation of NTBs. Until these are quantified, subjectivity will limit the reproducibility of the results.

Thus, this first cut at improving the theory of hegemonic stability as proposed by David Lake has increased the predictability across time. What remains is to find any other missing variables and to further reduce the subjectivity of the analysis by providing data in an empirical form that can be verified by all.

APPENDIX I

WORLD TRADE AND

RELATIVE PRODUCTIVITY

WORLD TRADE

World trade was calculated using the following formula:

$$\frac{\text{Imports}_{\text{COUNTRY A}} + \text{Exports}_{\text{COUNTRY A}}}{\text{Imports}_{\text{WORLD}} + \text{Exports}_{\text{WORLD}}}$$

RELATIVE PRODUCTIVITY

The use of relative labor productivity is acknowledged to be problematic as there is no agreement of the definition of productivity. Most studies, however, define productivity as output per man-hour. This is the definition I use. Also, the fact that labor productivity is used rather than total factor productivity or service sector productivity is also a matter of debate.

The problem with total factor productivity is that the data is simply not available for the nineteenth and early twentieth century. The type of data required for such a calculation is available for the latter half of the twentieth century but only for the most advanced states. The data still does not exist for other advanced states with which to make a comparison for relative productivity.

The other form of productivity, service sector productivity, also has its own problems. With the service sectors of advanced economies now making up half of the

state's economy, many scholars argue that the productivity of this sector is the most important in gauging the efficiency of the economy. However, the results of the limited number of studies done have been ambiguous and limited to binary comparisons, usually between the United States and Japan (McKinsey, 1992:11-12). Also, the calculations of this type of productivity are complex and the information required is not readily available except in the most advanced states.

As a result of these difficulties, I have chosen to use relative labor productivity. This type of productivity is simple to calculate and encompasses the effect of the service sector. If this simple form of productivity accurately depicts the international economic structure, then parsimony is preserved without sacrificing validity.

Relative labor productivity for the period of British hegemony and decline, 1870-1938, was derived from Angus Maddison (1979:43; 1982:212). The formula that Maddison used to calculate relative labor productivity is very similar to the one I used in this thesis (shown below).

Calculating relative labor productivity for the period of U.S. hegemony and decline, 1945-1985, was accomplished using statistics from the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), and the International Labor Office (ILO). I used a formula found in "Which Productivity? Perspective on a Current Question" which was written by Solomon Fabricant in the U.S. Labor Statistics Bureau's Monthly Labor Review in June 1962.

The formula given was:

$$\frac{\text{GDP}}{\text{PERSON-HOURS.}}$$

GDP from 1950 to 1959 was converted from national currencies to U.S. dollars using established exchange rates. For all other years, GDP was already translated into U.S. dollars. The denominator consisted of the number of people employed in the economy during a given year and the hours worked was the average number of hours worked per week by each economically active person.

At the outset of the study, I used several different advanced states to figure out an average labor productivity. The set of states used for the study were the United States, Japan, France, Germany, the United Kingdom, Australia, Austria, Belgium, Canada, Denmark, Finland, Israel, Italy, Mexico, the Netherlands, Norway, South Korea, Spain, Sweden, and Switzerland. The states used varied from year to year based on the availability of data and productivity levels. If an individual state was found to have labor productivity levels well below the levels of other states, then it was not included in the calculation of relative labor productivity. For example, South Korea was below the average by a substantial margin for each period and was therefore not included. The individual states used are listed below. The goal was to compare advanced states as using the entire world would have distorted the study by

introducing many very low productivity statistics and seemingly show the five states under examination to be tremendously productive.

From 1945 to 1949, only world trade statistics were available. Labor productivity could not be calculated for several reasons. The most important, however, was the lack of statistics for Germany and Japan for this time frame. Also, the number of advanced states with published statistics was very small (i.e. five or less). Thus, the relative productivity of each country could not be calculated. However, due to the war torn nature of these economies, it is valid to assume that their productivity's were lower than one. One can see that from 1950 to 1953 productivities in the states in the study were increasing from very low levels. Thus, this assumption that their productivities were less than one seems plausible.

Table 18 on the following page shows which states were included in calculating relative productivity for each year and each states' relative labor productivity measured in GDP per man-hour. 'N/A' means that the data for that year was not available for that individual states. The data for 1870 through 1938 was derived from Angus Maddison (1982:212). The data for 1945 through 1986 was calculated using OECD, UN, and ILO statistics.

Table 18

Relative Labor Productivity 1870-1980: GDP Per Man-Hour

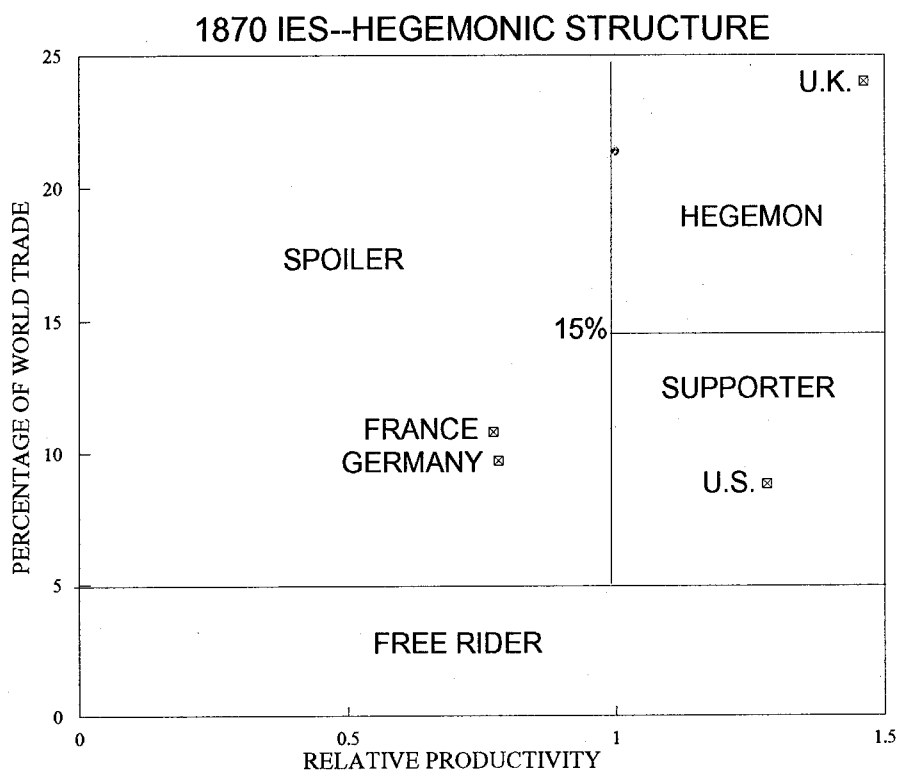
State	1870	1880	1890	1900	1913	1929	1938	1952	1955	1967	1972	1980
U.S.	1.28	1.26	1.43	1.41	1.58	1.68	1.60	2.42	2.43	1.96	1.67	1.11
France	0.77	0.76	0.78	0.77	0.85	0.90	0.82	0.23	0.29	0.92	0.95	1.10
Germany	0.78	0.72	0.84	0.86	0.90	0.82	0.90	0.73	0.76	0.78	1.06	1.09
U.K.	1.46	1.35	1.43	1.31	1.28	1.16	0.92	0.75	0.78	0.69	0.67	0.75
Japan	0.31	N/A	0.32	N/A	0.35	0.44	0.53	0.31	0.30	0.63	0.79	1.05
Australia	0.78	2.37	2.24	2.19	1.62	1.61	1.48	1.43	1.69	1.02	0.80	0.92
Austria	0.78	0.72	0.82	0.81	0.85	0.69	0.63	0.64	0.65	0.99	0.99	1.07
Belgium	1.35	1.28	1.38	1.22	1.20	1.15	1.12	0.97	1.07	1.10	1.16	1.22
Canada	1.11	1.09	1.16	1.11	1.38	1.21	1.07	1.87	1.79	1.35	1.45	0.91
Denmark	0.80	0.73	0.84	0.82	0.95	1.03	0.96	N/A	N/A	N/A	1.12	1.24
Finland	0.53	N/A	0.50	N/A	0.67	0.66	0.70	N/A	N/A	0.73	0.73	0.95
Israel	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.89	0.85	0.71
Italy	0.80	0.65	0.63	0.58	0.68	0.67	0.78	0.39	0.44	0.82	0.64	0.73
Netherlands	1.35	N/A	1.31	1.17	1.17	1.25	1.10	0.95	0.70	0.83	1.04	1.23
Norway	0.73	0.66	0.76	0.67	0.78	0.88	0.99	1.14	1.16	1.19	1.36	1.09
Spain	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.49	0.59
Sweden	0.57	0.53	0.61	0.64	0.79	0.84	0.94	N/A	N/A	1.09	1.28	1.15
Switzerland	1.00	N/A	1.00	N/A	0.96	1.15	1.12	N/A	N/A	N/A	0.94	1.08

APPENDIX II

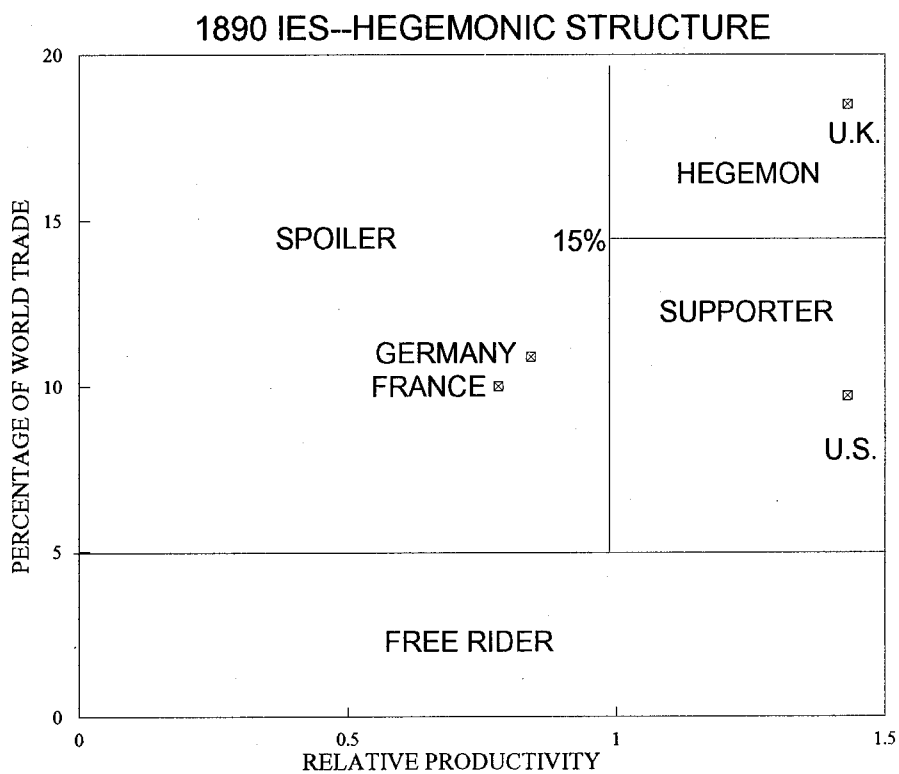
FIGURES

The graphs shown in this appendix were separated for clarity due to the large number of states in the study. Some explanation is required on their construction, however. Each of the graphs is divided into a section for a Free Rider, a Spoiler, a Supporter, and a Hegemon. Each country's progression through each time frame and international economic structure is shown.

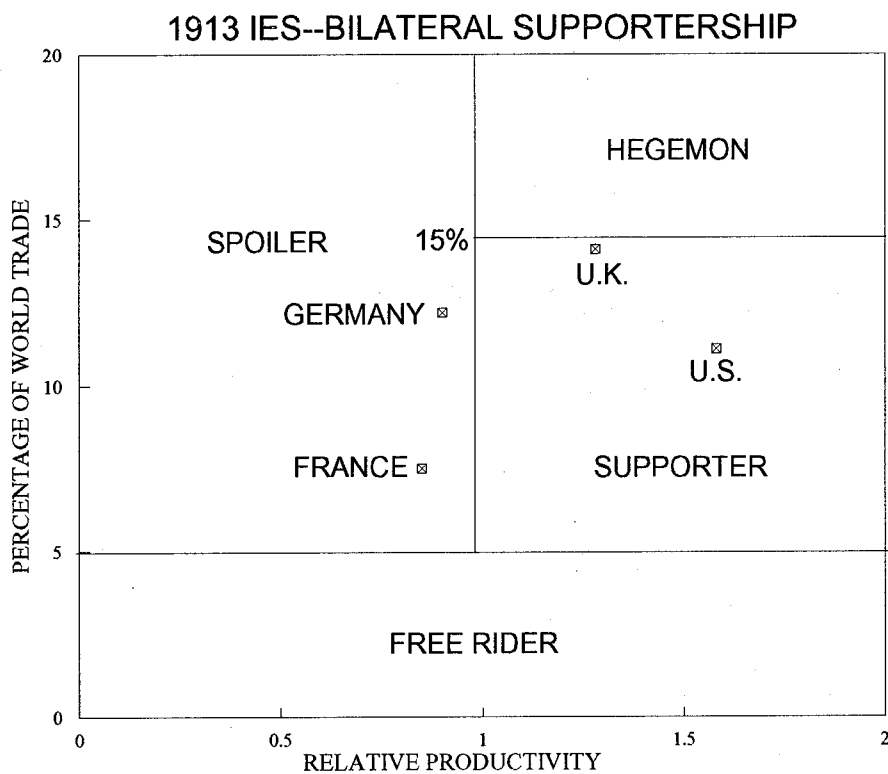
What needs to be remembered as the graphs are examined is that the general trend for each country is shown. There is variation within each time frame but it is the trend that counts. In other words, all that matters for the sake of the study is the position of the country in a given international economic structure. The study does not care about the fluctuations of a state within a given structure. Rather, only the position of the state within a given structure matters. Thus, the years chosen for each country is an attempt to reflect the general trend for that country. For example, the graph of the United States shows the years in which it progressed from a Hegemon to a Supporter (1953-1954), then its general decline until 1979, when it rebounded. The reason for only showing the trend reduces to simplicity. Showing each year would result in a messy and difficult to read graph.

Figure 1

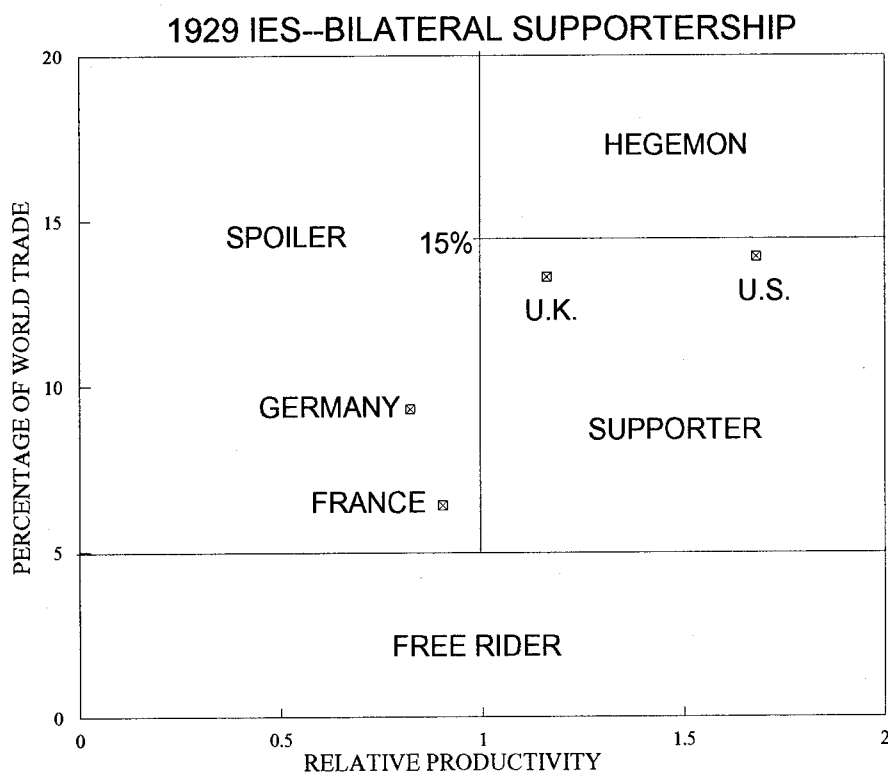
Note: IES stands for International Economic Structure

Figure 2

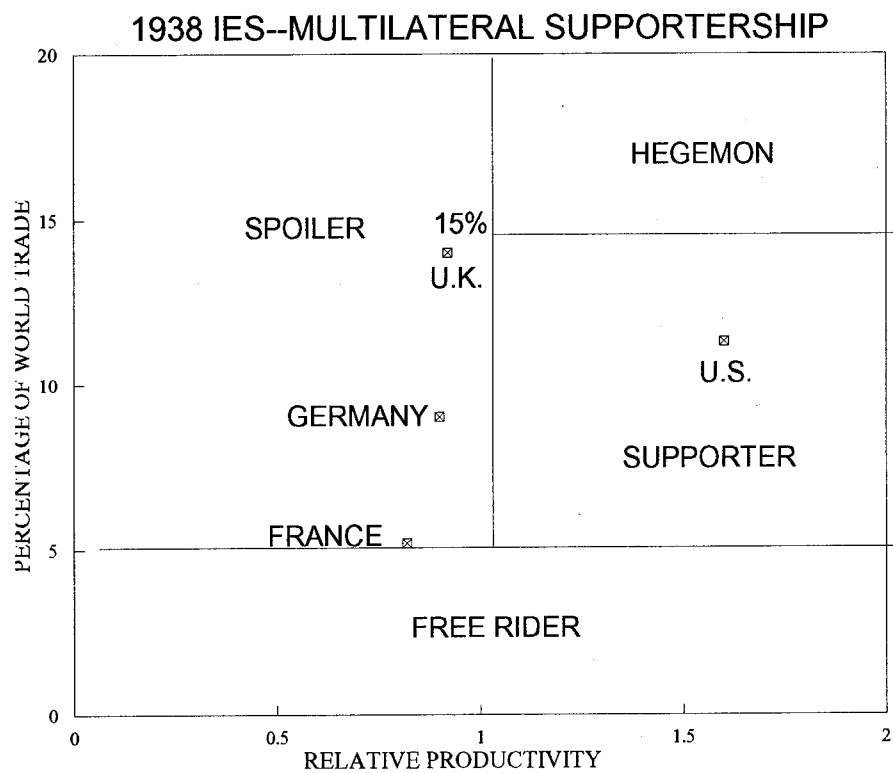
Note: IES stands for International Economic Structure

Figure 3

Note: IES stands for International Economic Structure

Figure 4

Note: IES stands for International Economic Structure

Figure 5

Note: IES stands for International Economic Structure

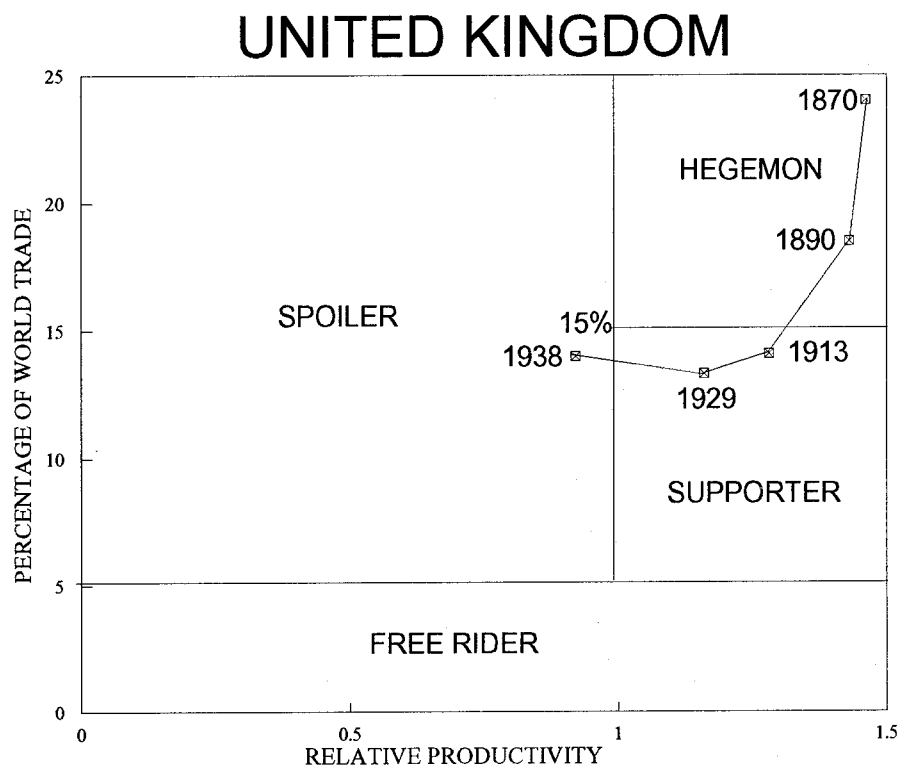
Figure 6

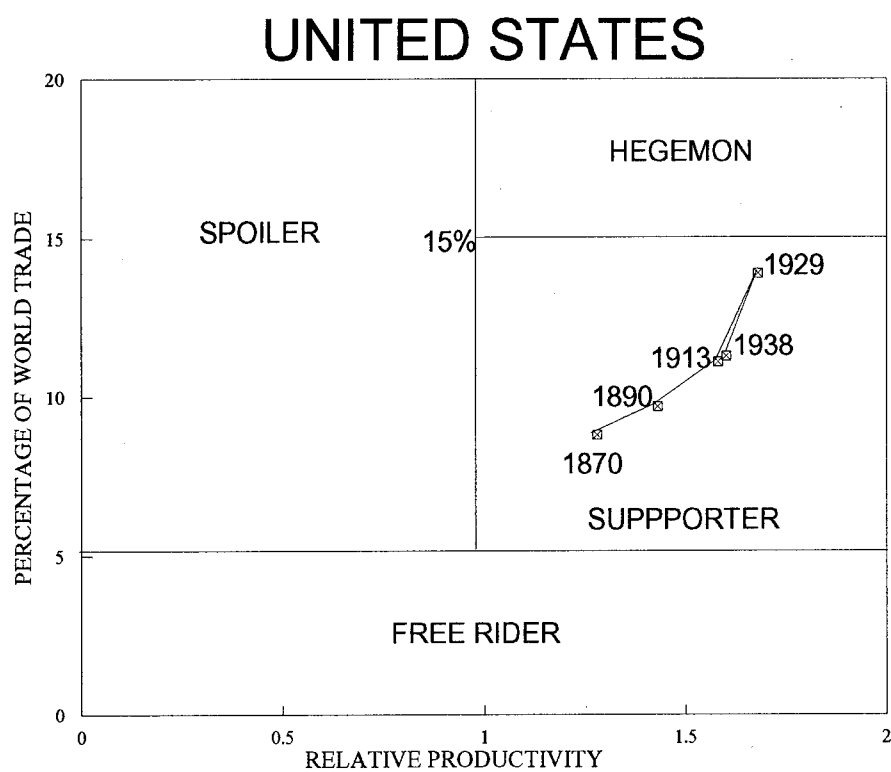
Figure 7

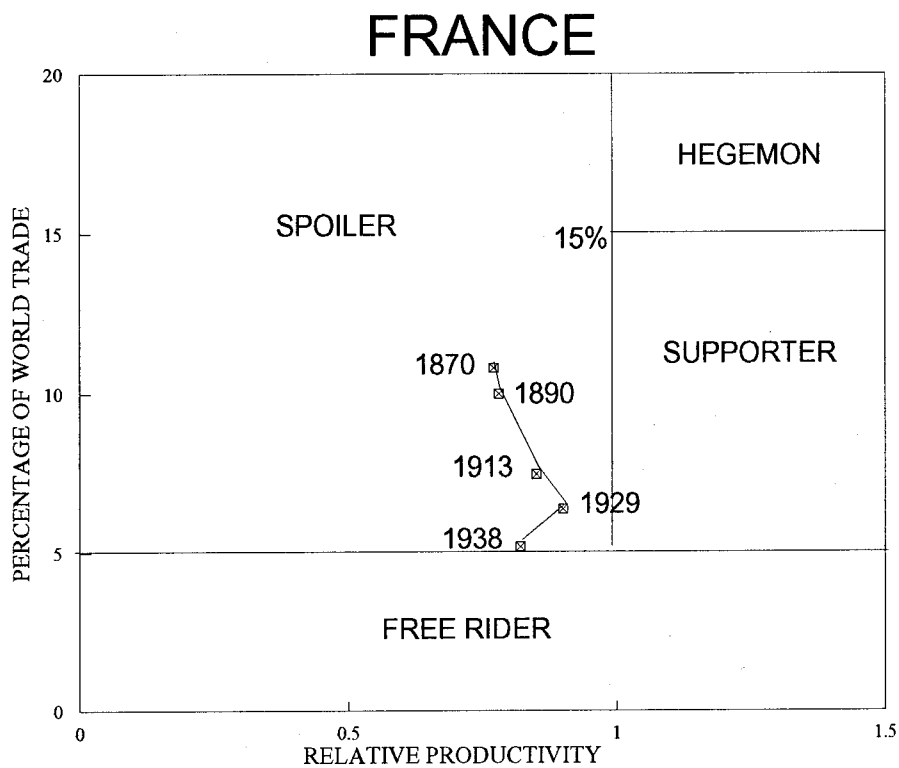
Figure 8

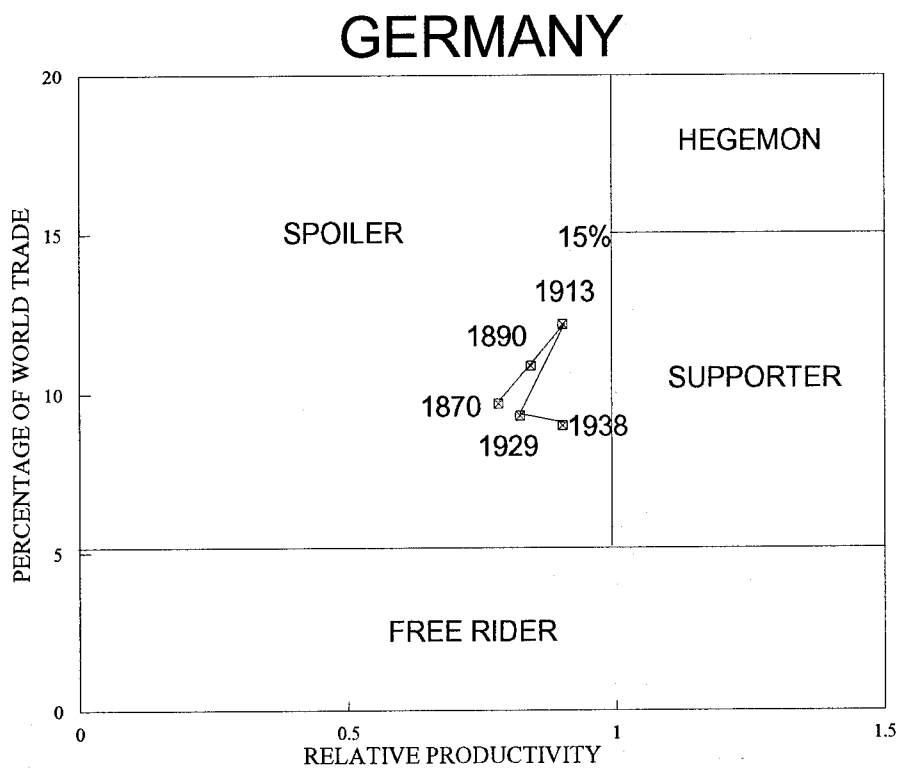
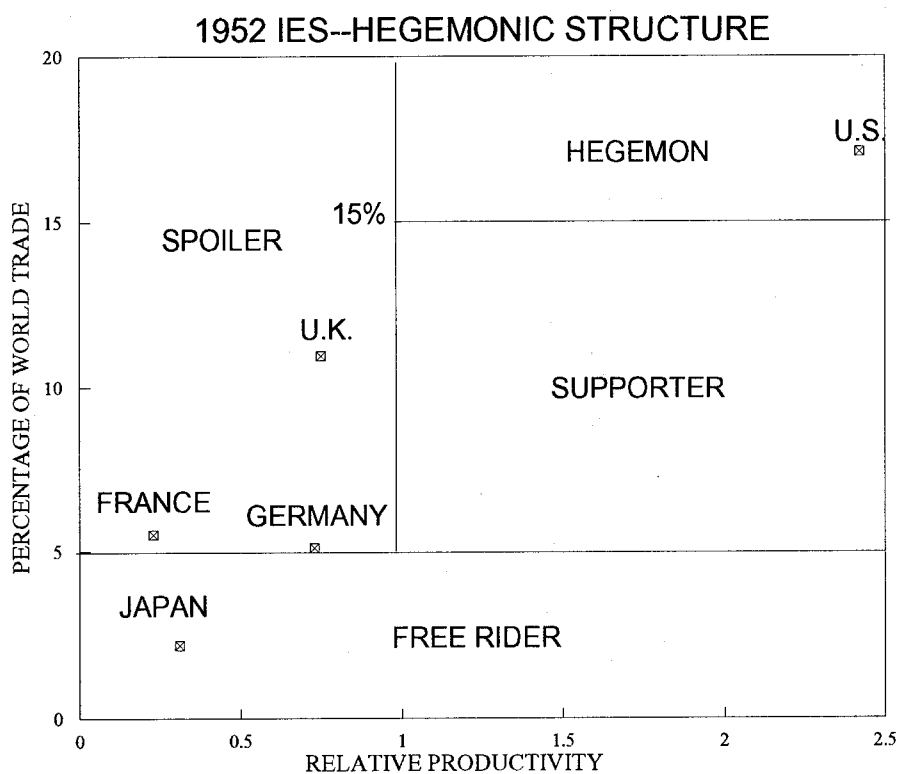
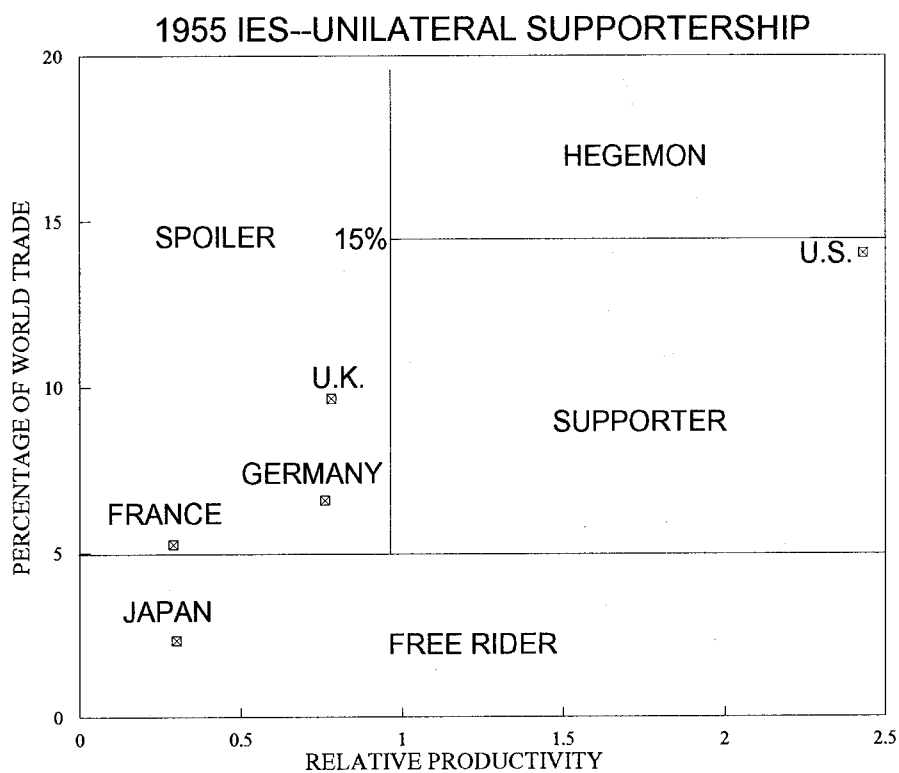
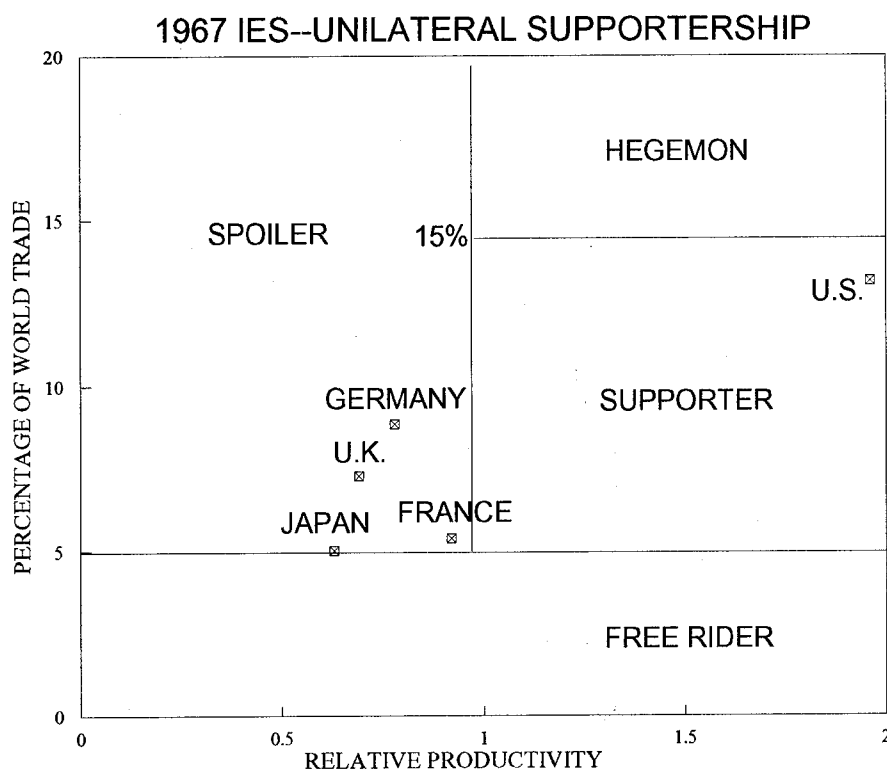
Figure 9

Figure 10

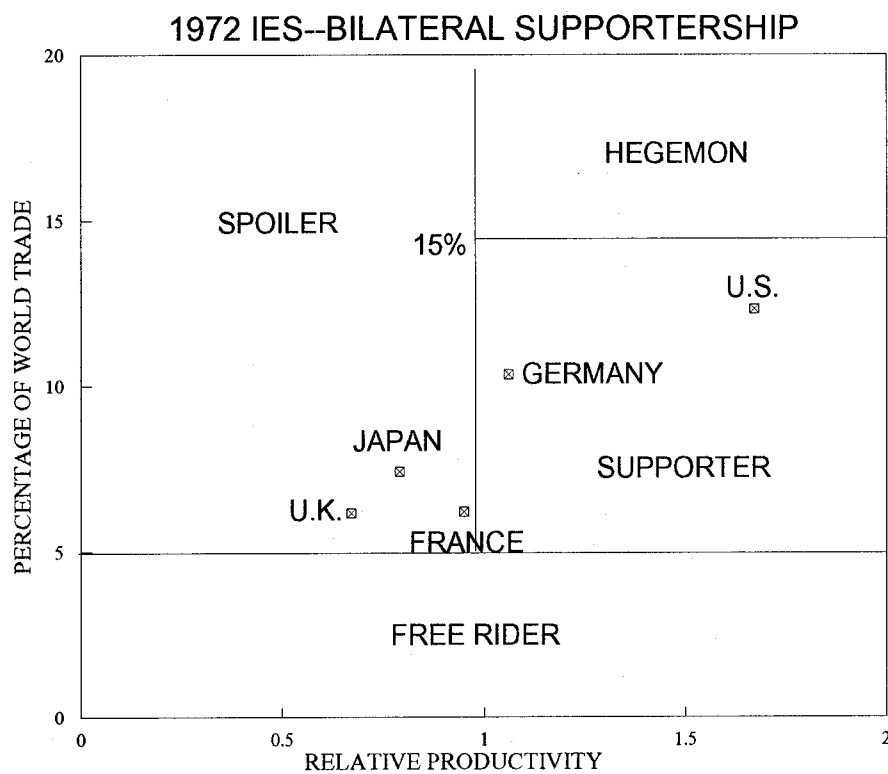
Note: IES stands for International Economic Structure

Figure 11

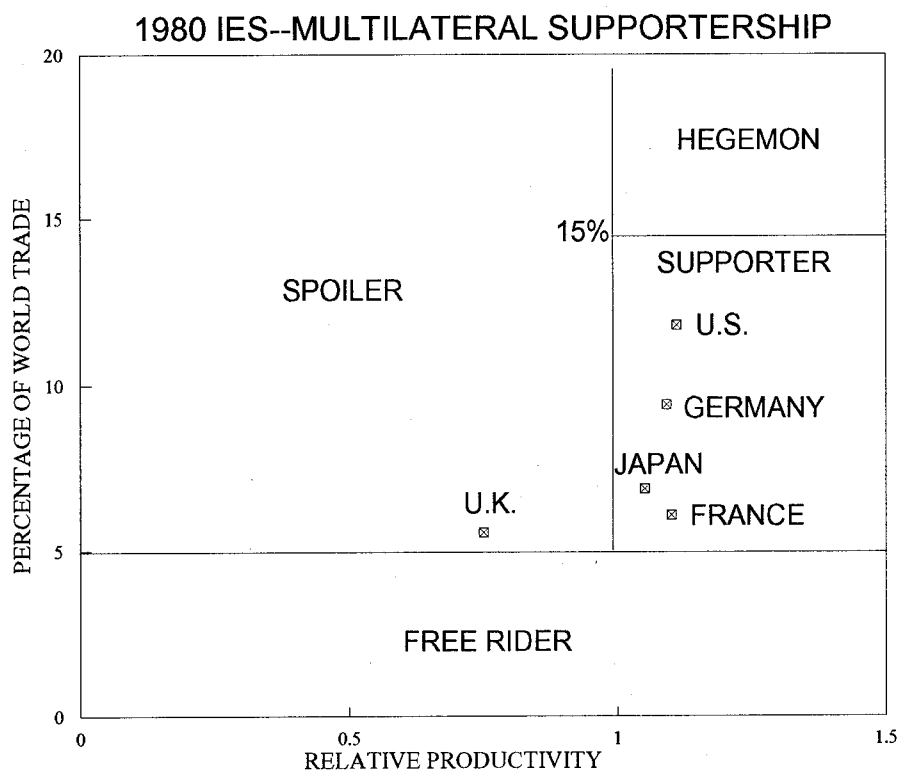
Note: IES stands for International Economic Structure

Figure 12

Note: IES stands for International Economic Structure

Figure 13

Note: IES stands for International Economic Structure

Figure 14

Note: IES stands for International Economic Structure

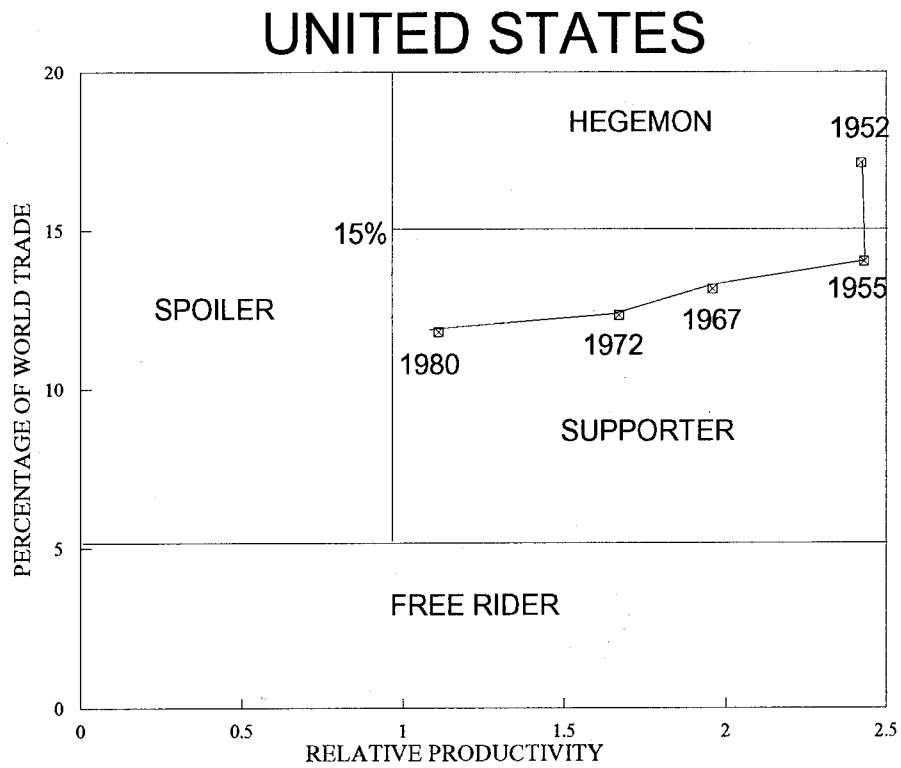
Figure 15

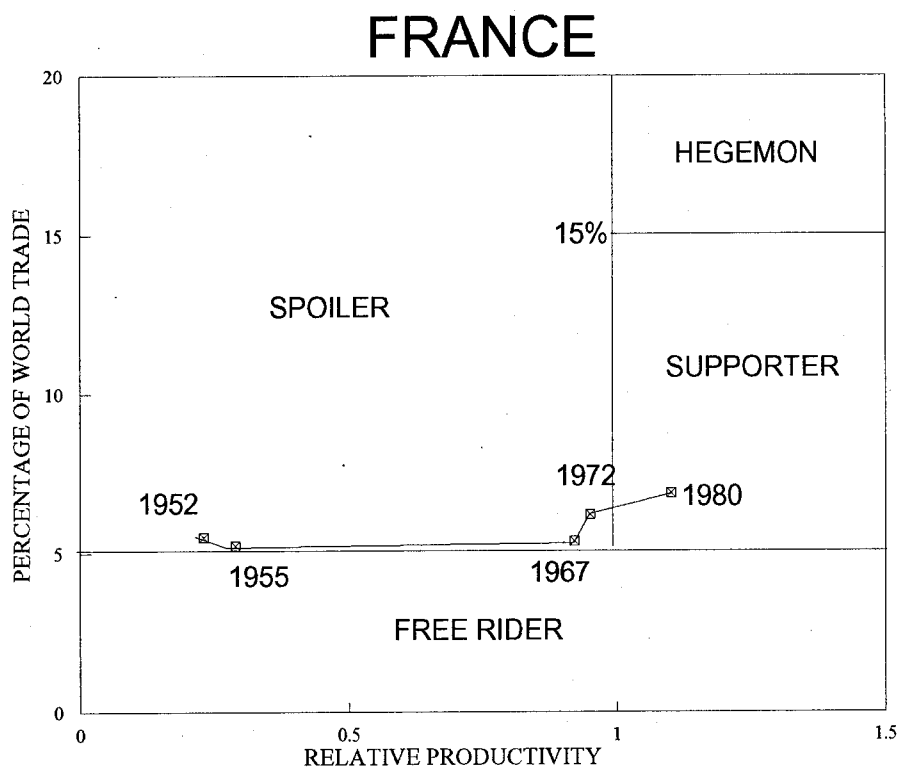
Figure 16

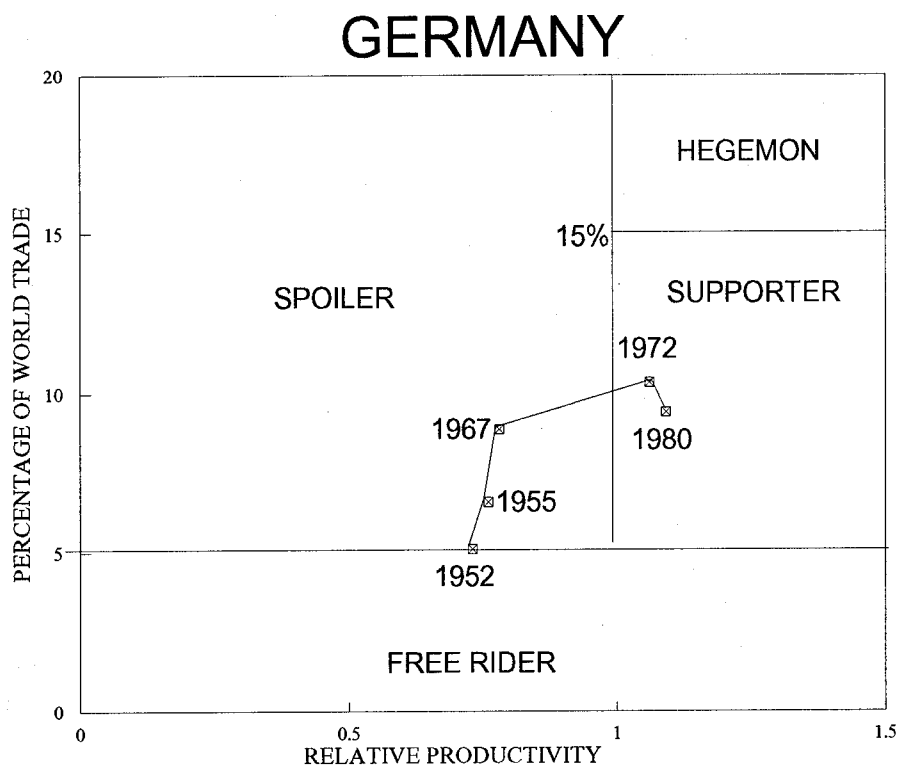
Figure 17

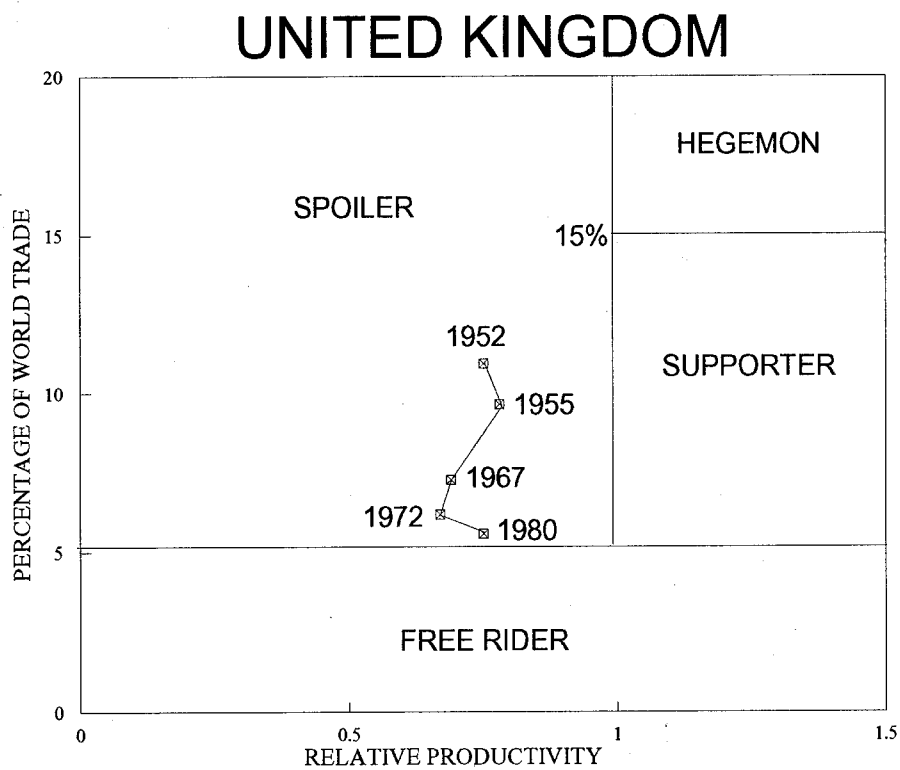
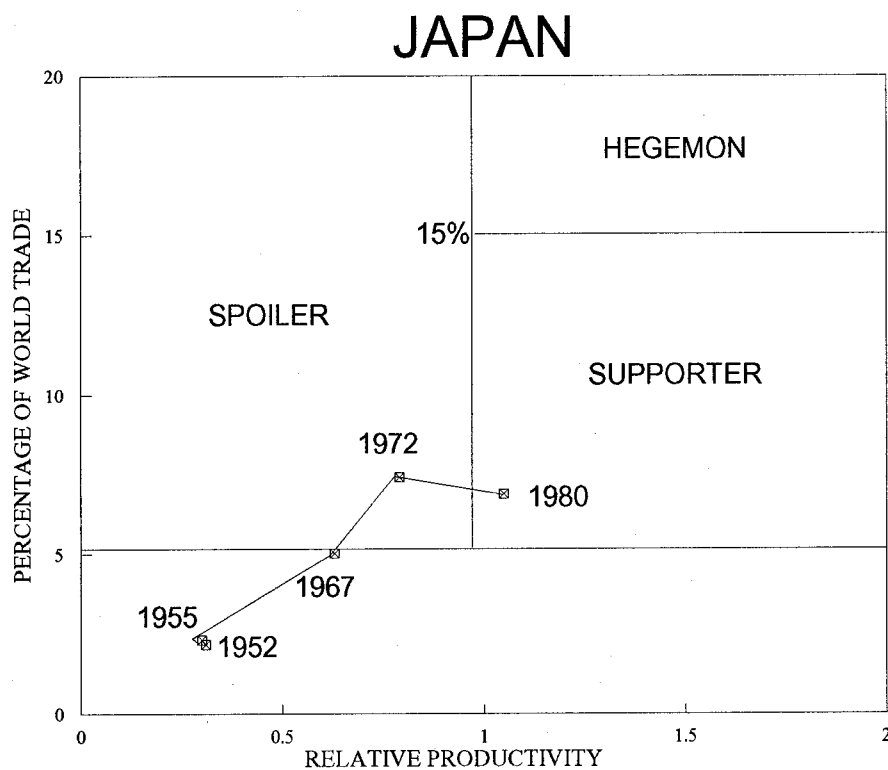
Figure 18

Figure 19

APPENDIX III

TRADE ACTS

Trade Acts, 1870-1912

- 1879 Tariff Law of 1879 (Germany)
- 1890 McKinley Act (United States)
- 1892 Meline Tariff (France)
- 1894 Wilson-Gorman Act (United States)
- 1897 Dingley Act (United States)
- 1902 Tariff of 1902 (Germany)
- 1909 Payne-Aldrich Act (United States)
- 1910 Tariff of 1910 (France)

Trade Acts, 1913-1929

- 1913 Underwood Tariff Act (United States)
- 1915 McKenna Duties (United Kingdom)
- 1920 Dyestuffs Act (United Kingdom)
- 1921 Safeguarding of Industries Act (United Kingdom)
- 1921 Emergency Tariff Act (United States)
- 1922 Fordney-McCumber Tariff (United States)

Trade Acts, 1930-1939

- 1930 Smoot-Hawley Tariff (United States)
- 1930 Finance Act (United Kingdom)
- 1931 Abnormal Importations Act (United Kingdom)
- 1931 Horticulture Products Act (United Kingdom)
- 1932 Import Duties Act (United Kingdom)
- 1934 Reciprocal Trade Agreements Act (United States)

Trade Acts, 1945-1953

- 1948 General Agreement on Tariffs and Trade (GATT- United States, United Kingdom, France, Germany)
- 1948 Organization for European Economic Co-operation (OEEC- United Kingdom, France, Germany)

Trade Acts, 1954-1971

- 1955 GATT (Japan)
- 1957 European Economic Community (EEC- France, Germany)
- 1960 European Free Trade Area (EFTA- United Kingdom)

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